GOOD TO GREAT

Why Some Companies Make the Leap . . . and Others Don't

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BUSINESS BOOKS

CONTENTS

CHAPTER 1

GOOD IS THE ENEMY OF GREAT

That's what makes death so hard—unsatisfied curiosity.

—BERYL MARKHAM,
West with the Night[1]

Good is the enemy of great.

And that is one of the key reasons why we have so little that becomes great.

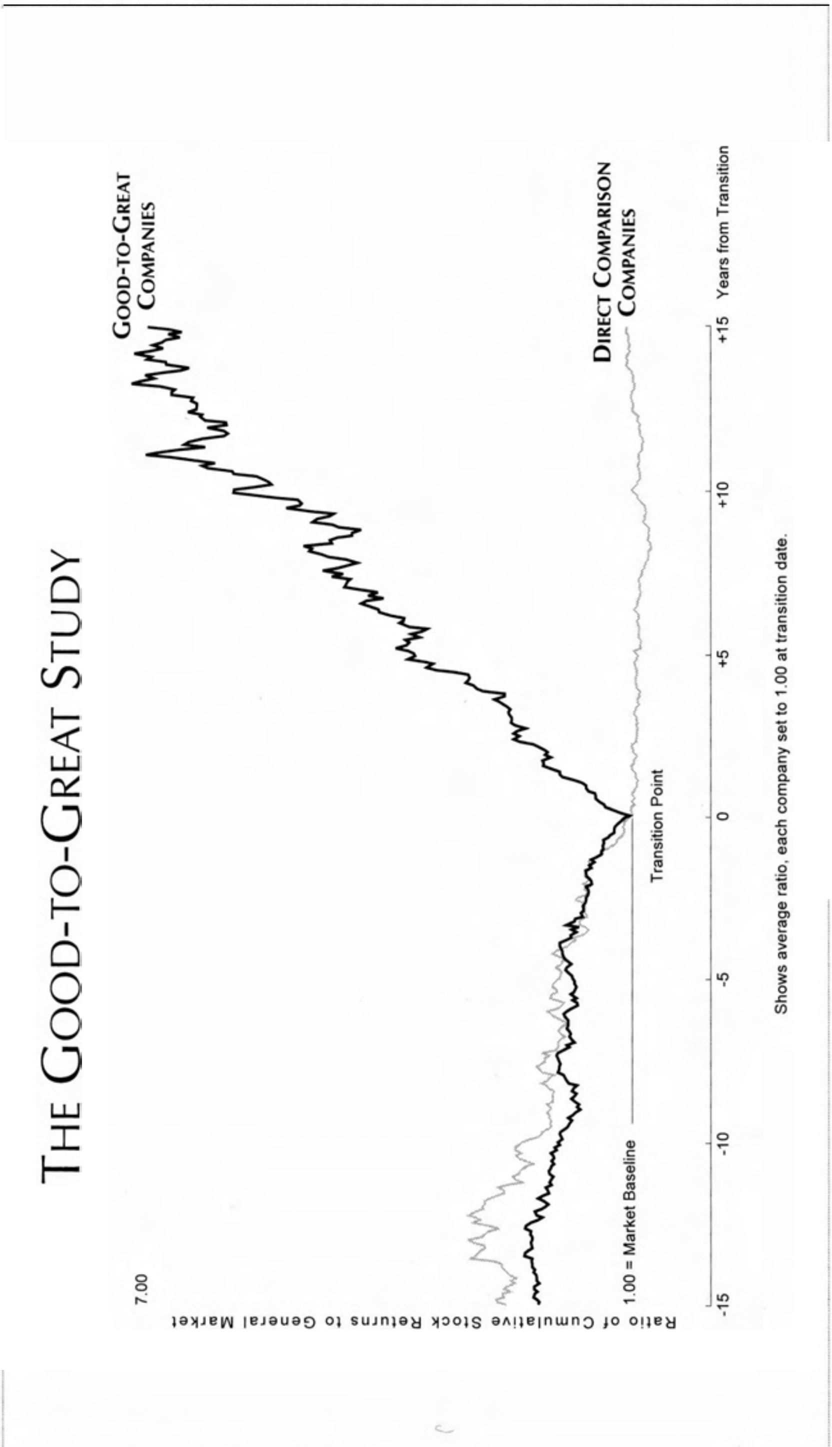
We don't have great schools, principally because we have good schools. We don't have great government, principally because we have good government. Few people attain great lives, in large part because it is just so easy to settle for a good life. The vast majority of companies never become great, precisely because the vast majority become quite good—and that is their main problem.

This point became piercingly clear to me in 1996, when I was having dinner with a group of thought leaders gathered for a discussion about organizational performance. Bill Meehan, the managing director of the San Francisco office of McKinsey & Company, leaned over and casually confided, "You know, Jim, we love Built to Last around here. You and your coauthor did a very fine job on the research and writing. Unfortunately, it's useless."

Curious, I asked him to explain.

"The companies you wrote about were, for the most part, always great," he said. "They never had to turn themselves from good companies into great companies. They had parents like David Packard and George Merck, who shaped the character of greatness from early on. But what about the vast majority of companies that wake up partway through life and realize that they're good, but not great?"

I now realize that Meehan was exaggerating for effect with his "useless" comment, but his essential observation was correct—that truly great com-


THE GOOD-TO-GREAT STUDY
GOOD-TO-GREAT COMPANIES
DIRECT COMPARISON COMPANIES
7.00
1.00 = Market Baseline
Transition Point
Ratio of Cumulative Stock Returns to General Market
-15
-10
-5
0
+5
+10
+15
Years from Transition
Shows average ratio, each company set to 1.00 at transition date.

panies, for the most part, have always been great. And the vast majority of good companies remain just that—good, but not great. Indeed, Meehan's comment proved to be an invaluable gift, as it planted the seed of a question that became the basis of this entire book—namely, Can a good company become a great company and, if so, how? Or is the disease of "just being good" incurable?

Five years after that fateful dinner we can now say, without question, that good to great does happen, and we've learned much about the underlying variables that make it happen. Inspired by Bill Meehan's challenge, my research team and I embarked on a five-year research effort, a journey to explore the inner workings of good to great.

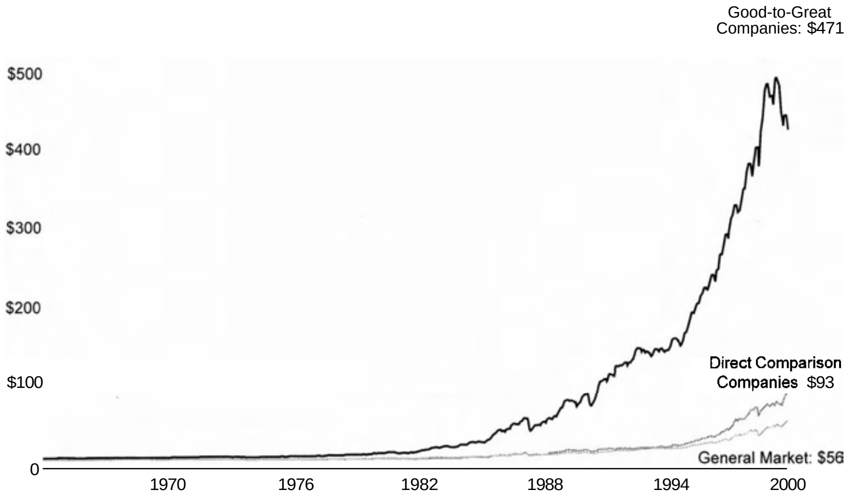
To quickly grasp the concept of the project, look at the chart on page 2.* In essence, we identified companies that made the leap from good results to great results and sustained those results for at least fifteen years. We compared these companies to a carefully selected control group of comparison companies that failed to make the leap, or if they did, failed to sustain it. We then compared the good-to-great companies to the comparison companies to discover the essential and distinguishing factors at work.

The good-to-great examples that made the final cut into the study attained extraordinary results, averaging cumulative stock returns 6.9 times the general market in the fifteen years following their transition points.[2] To put that in perspective, General Electric (considered by many to be the best-led company in America at the end of the twentieth century) outperformed the market by 2.8 times over the fifteen years 1985 to 2000.[3] Furthermore, if you invested $1 in a mutual fund of the good-to-great companies in 1965, holding each company at the general market rate until the date of transition, and simultaneously invested $1 in a general market stock fund, your $1 in the good-to-great fund taken out on January 1, 2000, would have multiplied 471 times, compared to a 56 fold increase in the market.[4]

These are remarkable numbers, made all the more remarkable when you consider the fact that they came from companies that had previously been so utterly unremarkable. Consider just one case, Walgreens. For over forty years, Walgreens had bumped along as a very average company, more or less tracking the general market. Then in 1975, seemingly out of nowhere—bang!—Walgreens began to climb . . . and climb . . . and

*A description of how the charts on pages 2 and 4 were created appears in chapter 1 notes at the end of the book.

Cumulative Stock Returns of $1 Invested, 1965 – 2000



Notes:
1. $1 divided evenly across companies in each set, January 1, 1965.
2. Each company held at market rate of return, until transition date.
3. Cumulative value of each fund shown as of January 1, 2000.
4. Dividends reinvested, adjusted for all stock splits.

climb . . . and climb . . . and it just kept climbing. From December 31, 1975, to January 1, 2000, $1 invested in Walgreens beat $1 invested in technology superstar Intel by nearly two times, General Electric by nearly five times, Coca-Cola by nearly eight times, and the general stock market (including the NASDAQ stock run-up at the end of 1999) by over ***fifteen*** times.*

How on earth did a company with such a long history of being nothing special transform itself into an enterprise that outperformed some of the best-led organizations in the world? And why was Walgreens able to make the leap when other companies in the same industry with the same opportunities and similar resources, such as Eckerd, did not make the leap? This single case captures the essence of our quest.

This book is not about Walgreens per se, or any of the specific compa-

*Calculations of stock returns used throughout this book reflect the total cumulative return to an investor, dividends reinvested and adjusted for stock splits. The "general stock market" (often referred to as simply "the market") reflects the totality of stocks traded on the New York Exchange, American Stock Exchange, and NASDAQ. See the notes to chapter 1 for details on data sources and calculations.

nies we studied. It is about the question—Can a good company become a great company and, if so, how?—and our search for timeless, universal answers that can be applied by any organization.

> Our five-year quest yielded many insights, a number of them surprising and quite contrary to conventional wisdom, but one giant conclusion stands above the others: We believe that almost *any* organization can substantially improve its stature and performance, perhaps even become great, if it conscientiously applies the framework of ideas we've uncovered.

This book is dedicated to teaching what we've learned. The remainder of this introductory chapter tells the story of our journey, outlines our research method, and previews the key findings. In chapter 2, we launch headlong into the findings themselves, beginning with one of the most provocative of the whole study: Level 5 leadership.

UNDAUNTED CURIOSITY

People often ask, "What motivates you to undertake these huge research projects?" It's a good question. The answer is, "Curiosity." There is nothing I find more exciting than picking a question that I don't know the answer to and embarking on a quest for answers. It's deeply satisfying to climb into the boat, like Lewis and Clark, and head west, saying, "We don't know what we'll find when we get there, but we'll be sure to let you know when we get back."

Here is the abbreviated story of this particular odyssey of curiosity.

Phase 1: The Search

With the question in hand, I began to assemble a team of researchers. (When I use "we" throughout this book, I am referring to the research team. In all, twenty-one people worked on the project at key points, usually in teams of four to six at a time.)

Our first task was to find companies that showed the good-to-great pattern exemplified in the chart on page 2. We launched a six-month "death march of financial analysis," looking for companies that showed the following basic pattern: fifteen-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next fifteen years. We picked fifteen years because it would transcend one-hit wonders and lucky breaks (you can't just be lucky for fifteen years) and would exceed the average tenure of most chief executive officers (helping us to separate great companies from companies that just happened to have a single great leader). We picked three times the market because it exceeds the performance of most widely acknowledged great companies. For perspective, a mutual fund of the following "marquis set" of companies beat the market by only 2.5 times over the years 1985 to 2000: 3M, Boeing, Coca-Cola, GE, Hewlett-Packard, Intel, Johnson & Johnson, Merck, Motorola, Pepsi, Procter & Gamble, Wal-Mart, and Walt Disney. Not a bad set to beat.

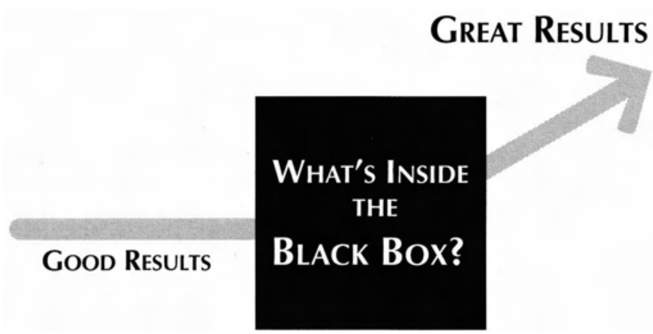
From an initial universe of companies that appeared on the Fortune 500 in the years 1965 to 1995, we systematically searched and sifted, eventually finding eleven good-to-great examples. (I've put a detailed description of our search in Appendix l.A.) However, a couple of points deserve brief mention here. First, a company had to demonstrate the good-to-great pattern *independent* of *its industry;* if the whole industry showed the same pattern, we dropped the company. Second, we debated whether we should use additional selection criteria beyond cumulative stock returns, such as impact on society and employee welfare. We eventually decided to limit our selection to the good-to-great *results* pattern, as we could not conceive of any legitimate and consistent method for selecting on these other variables without introducing our own biases. In the last chapter, however, I address the relationship between corporate values and *enduring* great companies, but the focus of this particular research effort is on the very specific question of how to turn a good organization into one that produces sustained great results.

At first glance, we were surprised by the list. Who would have thought that Fannie Mae would beat companies like GE and Coca-Cola? Or that Walgreens could beat Intel? The surprising list—a dowdier group would be hard to find—taught us a key lesson right up front. It is possible to turn good into great in the most unlikely of situations. This became the first of many surprises that led us to reevaluate our thinking about corporate greatness.

Phase 3: Inside the Black Box

We then turned our attention to a deep analysis of each case. We collected all articles published on the twenty-eight companies, dating back fifty years or more. We systematically coded all the material into categories, such as strategy, technology, leadership, and so forth. Then we interviewed most of the good-to-great executives who held key positions of responsibility during the transition era. We also initiated a wide range of qualitative and quantitative analyses, looking at everything from acquisitions to executive compensation, from business strategy to corporate culture, from layoffs to leadership style, from financial ratios to management turnover. When all was said and done, the total project consumed 10.5 people years of effort. We read and systematically coded nearly 6,000 articles, generated more than 2,000 pages of interview transcripts, and created 384 million bytes of computer data. (See Appendix 1.D for a detailed list of all our analyses and activities.)

We came to think of our research effort as akin to looking inside a black box. Each step along the way was like installing another lightbulb to shed light on the inner workings of the good-to-great process.



With data in hand, we began a series of weekly research-team debates. For each of the twenty-eight companies, members of the research team and I would systematically read all the articles, analyses, interviews, and the research coding. I would make a presentation to the team on that specific company, drawing potential conclusions and asking questions. Then we would debate, disagree, pound on tables, raise our voices, pause and reflect, debate some more, pause and think, discuss, resolve, question, and debate yet again about "what it all means."

> It is important to understand that we developed all of the concepts in this book by making *empirical* deductions *directly from the data.* We did not begin this project with a theory to test or prove. We sought to build a theory from the ground up, derived directly from the evidence.

The core of our method was a systematic process of contrasting the good-to-great examples to the comparisons, always asking, "What's different?"

We also made particular note of "dogs that did not bark." In the Sherlock Holmes classic "The Adventure of Silver Blaze," Holmes identified "the curious incident of the dog in the night-time"[7] as the key clue. It turns out that the dog did nothing in the nighttime and that, according to Holmes, was the curious incident, which led him to the conclusion that the prime suspect must have been someone who knew the dog well.

In our study, what we didn't find—dogs that we might have expected to bark but didn't—turned out to be some of the best clues to the inner workings of good to great. When we stepped inside the black box and turned on the lightbulbs, we were frequently just as astonished at what we did not see as what we did. For example:

- Larger-than-life, celebrity leaders who ride in from the outside are negatively correlated with taking a company from good to great. Ten of eleven good-to-great CEOs came from inside the company, whereas the comparison companies tried outside CEOs six times more often.
- We found no systematic pattern linking specific forms of executive compensation to the process of going from good to great. The idea that the structure of executive compensation is a key driver in corporate performance is simply not supported by the data.
- Strategy per se did not separate the good-to-great companies from the comparison companies. Both sets of companies had well-defined strategies, and there is no evidence that the good-to-great companies spent more time on long-range strategic planning than the comparison companies.

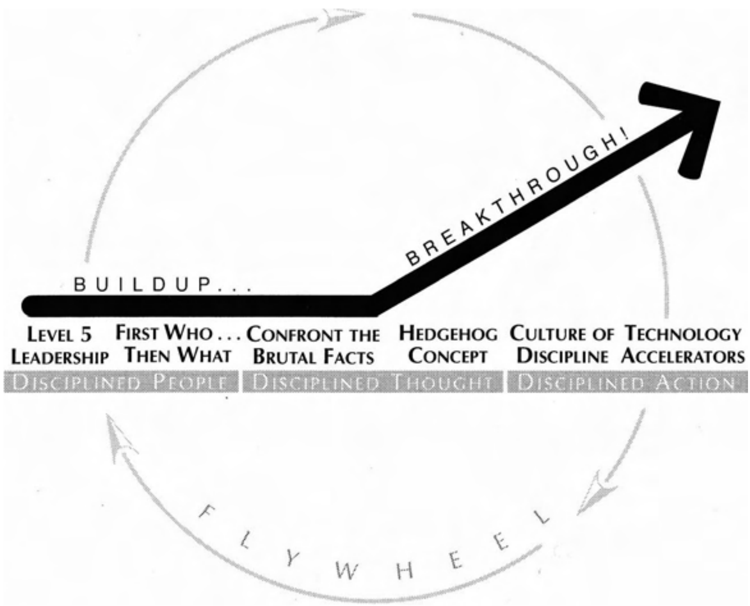
- The good-to-great companies did not focus principally on what to do to become great; they focused equally on what not to do and what to stop doing.
- Technology and technology-driven change has virtually nothing to do with igniting a transformation from good to great. Technology can accelerate a transformation, but technology cannot cause a transformation.
- Mergers and acquisitions play virtually no role in igniting a transformation from good to great; two big mediocrities joined together never make one great company.
- The good-to-great companies paid scant attention to managing change, motivating people, or creating alignment. Under the right conditions, the problems of commitment, alignment, motivation, and change largely melt away.
- The good-to-great companies had no name, tag line, launch event, or program to signify their transformations. Indeed, some reported being unaware of the magnitude of the transformation at the time; only later, in retrospect, did it become clear. Yes, they produced a truly revolutionary leap in results, but not by a revolutionary process.
- The good-to-great companies were not, by and large, in great industries, and some were in terrible industries. In no case do we have a company that just happened to be sitting on the nose cone of a rocket when it took off. Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice.

Phase 4: Chaos to Concept

I've tried to come up with a simple way to convey what was required to go from all the data, analyses, debates, and "dogs that did not bark" to the final findings in this book. The best answer I can give is that it was an iterative process of looping back and forth, developing ideas and testing them against the data, revising the ideas, building a framework, seeing it break under the weight of evidence, and rebuilding it yet again. That process was repeated over and over, until everything hung together in a coherent framework of concepts. We all have a strength or two in life, and I suppose mine is the ability to take a lump of unorganized information, see patterns, and extract order from the mess—to go from chaos to concept.

That said, however, I wish to underscore again that the concepts in the final framework are not my "opinions." While I cannot extract my own psychology and biases entirely from the research, each finding in the final framework met a rigorous standard before the research team would deem it significant. Every primary concept in the final framework showed up as a change variable in 100 percent of the good-to-great companies and in less than 30 percent of the comparison companies during the pivotal years. Any insight that failed this test did not make it into the book as a chapter-level concept.

Here, then, is an overview of the framework of concepts and a preview of what's to come in the rest of the book. (See the diagram below.) Think of the transformation as a process of buildup followed by breakthrough, broken into three broad stages: disciplined people, disciplined thought, and disciplined action. Within each of these three stages, there are two key concepts, shown in the framework and described below. Wrapping around this entire framework is a concept we came to call the flywheel, which captures the gestalt of the entire process of going from good to great.



***Level* 5 Leadership.** We were surprised, shocked really, to discover the type of leadership required for turning a good company into a great one. Compared to high-profile leaders with big personalities who make headlines and become celebrities, the good-to-great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy—these leaders are a paradoxical blend of personal humility and professional will. They are more like Lincoln and Socrates than Patton or Caesar.

First Who . . . Then What. We expected that good-to-great leaders would begin by setting a new vision and strategy. We found instead that they first got the right people on the bus, the wrong people off the bus, and the right people in the right seats—and then they figured out where to drive it. The old adage "People are your most important asset" turns out to be wrong. People are not your most important asset. The right people are.

Confront the Brutal Facts (Yet Never Lose Faith). We learned that a former prisoner of war had more to teach us about what it takes to find a path to greatness than most books on corporate strategy. Every good-to-great company embraced what we came to call the Stockdale Paradox: You must maintain unwavering faith that you can and will prevail in the end, regardless of the difficulties, AND at the same time have the discipline to confront the most brutal facts of your current reality, whatever they might be.

The Hedgehog Concept (Simplicity within the Three Circles). To go from good to great requires transcending the curse of competence. Just because something is your core business—just because you've been doing it for years or perhaps even decades—does not necessarily mean you can be the best in the world at it. And if you cannot be the best in the world at your core business, then your core business absolutely cannot form the basis of a great company. It must be replaced with a simple concept that reflects deep understanding of three intersecting circles.

A Culture of Discipline. All companies have a culture, some companies have discipline, but few companies have a culture of discipline. 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 culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance.

Technology Accelerators. Good-to-great companies think differently about the role of technology. They never use technology as the primary means of igniting a transformation. Yet, paradoxically, they are pioneers in the application of carefully selected technologies. We learned that technology by itself is never a primary, root cause of either greatness or decline.

The Flywheel and the Doom Loop. Those who launch revolutions, dramatic change programs, and wrenching restructurings will almost certainly fail to make the leap from good to great. No matter how dramatic the end result, the good-to-great transformations never happened in one fell swoop. There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond.

From Good to Great to Built to ***Last.*** In an ironic twist, I now see Good to *Great* not as a sequel to Built to Last, but as more of a *prequel.* This book is about how to turn a good organization into one that produces sustained great results. Built to Last is about how you take a company with great results and turn it into an enduring great company of iconic stature. To make that final shift requires core values and a purpose beyond just making money combined with the key dynamic of preserve the core / stimulate progress.

Good to Great Concepts	→	Sustained Great Results	+	Built to Last Concepts	→	Enduring Great Company

If you are already a student of Built to Last, please set aside your questions about the precise links between the two studies as you embark upon the findings in Good to Great. In the last chapter, I return to this question and link the two studies together.

THE TIMELESS "PHYSICS" OF GOOD TO GREAT

I had just finished presenting my research to a set of Internet executives gathered at a conference, when a hand shot up. "Will your findings continue to apply in the new economy? Don't we need to throw out all the old ideas and start from scratch?" It's a legitimate question, as we do live in a time of dramatic change, and it comes up so often that I'd like to dispense with it right up front, before heading into the meat of the book.

Yes, the world is changing, and will continue to do so. But that does not mean we should stop the search for timeless principles. Think of it this way: While the practices of engineering continually evolve and change, the laws of physics remain relatively fixed. I like to think of our work as a search for timeless principles—the enduring physics of great organizations—that will remain true and relevant no matter how the world changes around us. Yes, the specific application will change (the engineering), but certain immutable laws of organized human performance (the physics) will endure.

The truth is, there's nothing new about being in a new economy. Those who faced the invention of electricity, the telephone, the automobile, the radio, or the transistor—did they feel it was any less of a new economy than we feel today? And in each rendition of the new economy, the best leaders have adhered to certain basic principles, with rigor and discipline.

Some people will point out that the scale and pace of change is greater today than anytime in the past. Perhaps. Even so, some of the companies in our good-to-great study faced rates of change that rival anything in the new economy. For example, during the early 1980s, the banking industry was completely transformed in about three years, as the full weight of deregulation came crashing down. It was certainly a new economy for the banking industry! Yet Wells Fargo applied every single finding in this book to produce great results, right smack in the middle of the fast-paced change triggered by deregulation.

As you immerse yourself in the coming chapters, keep one key point in mind. This book is not about the old economy. Nor is it about the new economy. It is not even about the companies you're reading about, or even about business per se. It is ultimately about one thing: the timeless principles of good to great. It's about how you take a good organization and turn it into one that produces sustained great results, using whatever definition of results best applies to your organization.

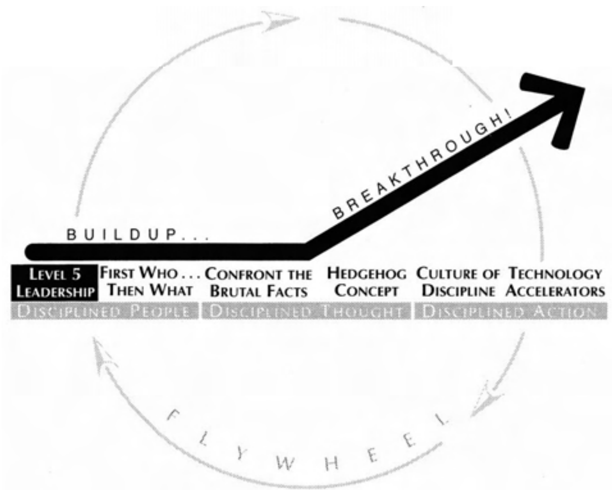
This might come as a surprise, but I don't primarily think of my work as about the study of business, nor do I see this as fundamentally a business book. Rather, I see my work as being about discovering what creates enduring great organizations of any type. I'm curious to understand the fundamental differences between great and good, between excellent and mediocre. I just happen to use corporations as a means of getting inside the black box. I do this because publicly traded corporations, unlike other types of organizations, have two huge advantages for research: a widely agreed upon definition of results (so we can rigorously select a study set) and a plethora of easily accessible data.

That good is the enemy of great is not just a business problem. It is a human problem. If we have cracked the code on the question of good to great, we should have something of value to any type of organization. Good schools might become great schools. Good newspapers might become great newspapers. Good churches might become great churches. Good government agencies might become great agencies. And good companies might become great companies.

So, I invite you to join me on an intellectual adventure to discover what it takes to turn good into great. I also encourage you to question and challenge what you learn. As one of my favorite professors once said, "The best students are those who never quite believe their professors." True enough. But he also said, "One ought not to reject the data merely because one does not like what the data implies." I offer everything herein for your thoughtful consideration, not blind acceptance. You're the judge and jury. Let the evidence speak.

C H A P T E R 2

LEVEL 5 LEADERSHIP



You can accomplish anything in life, provided that you do not mind who gets the credit.

—HARRY S. TRUMAN[1]

In 1971, a seemingly ordinary man named Darwin E. Smith became chief executive of Kimberly-Clark, a stodgy old paper company whose stock had fallen 36 percent behind the general market over the previous twenty years.

Smith, the company's mild-mannered in-house lawyer, wasn't so sure the board had made the right choice—a feeling further reinforced when a director pulled Smith aside and reminded him that he lacked some of the qualifications for the position.[2] But CEO he was, and CEO he remained for twenty years.

What a twenty years it was. In that period, Smith created a stunning transformation, turning Kimberly-Clark into the leading paper-based consumer products company in the world. Under his stewardship, Kimberly-Clark generated cumulative stock returns 4.1 times the general market, handily beating its direct rivals Scott Paper and Procter & Gamble and outperforming such venerable companies as Coca-Cola, Hewlett-Packard, 3M, and General Electric.

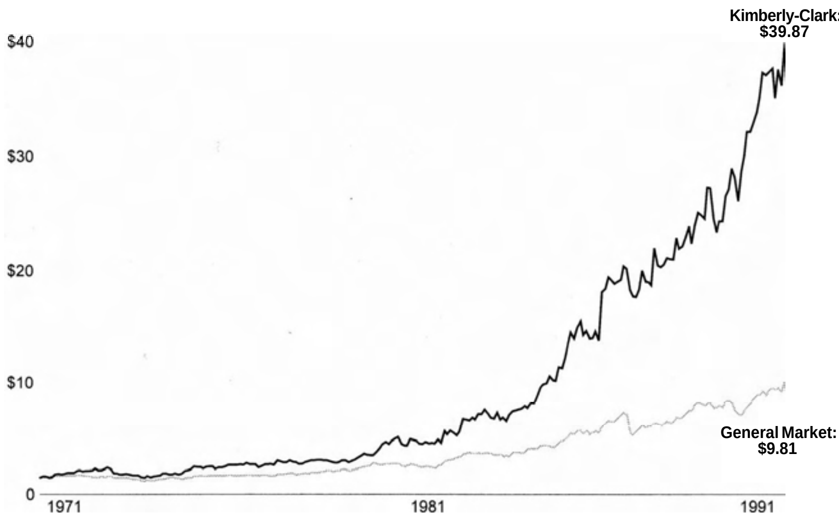
It was an impressive performance, one of the best examples in the twentieth century of taking a good company and making it great. Yet few people—even ardent students of management and corporate history—know anything about Darwin Smith. He probably would have liked it that way. **A** man who carried no airs of self-importance, Smith found his favorite companionship among plumbers and electricians and spent his vacations rumbling around his Wisconsin farm in the cab of a backhoe, digging holes and moving rocks.[3] He never cultivated hero status or executive celebrity status.[4] When a journalist asked him to describe his management style, Smith, dressed unfashionably like a farm boy wearing his first suit bought at J. C. Penney, just stared back from the other side of his nerdy-looking black-rimmed glasses. After a long, uncomfortable silence, he said simply: “Eccentric.”[5] The Wall ***Street*** Journal did not write a splashy feature on Darwin Smith.

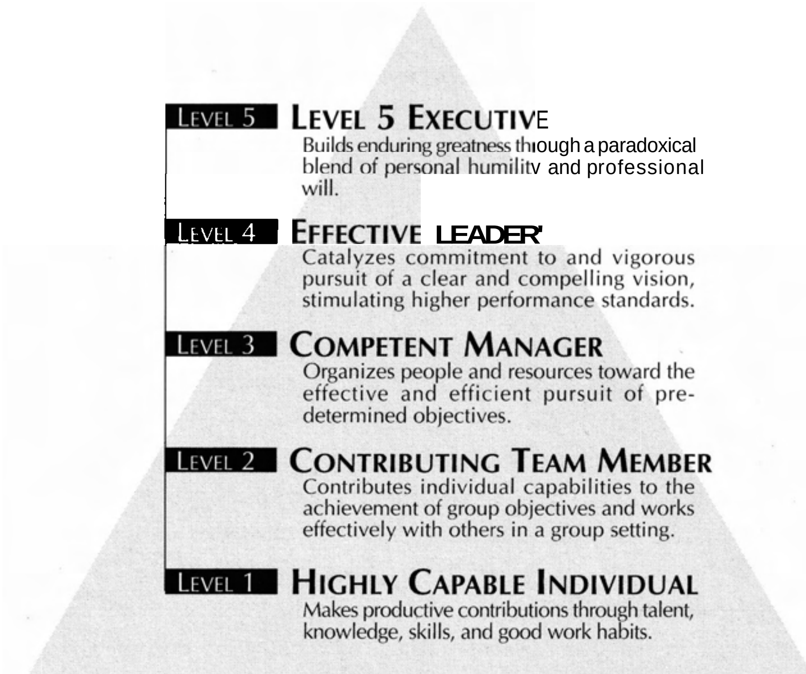
But if you were to think of Darwin Smith as somehow meek or soft, you would be terribly mis!aken. Has.awkward shyness and lack of pretense was coupled with a fierf$ even stoic, resolve toward life. Smith grew up as a poor Indiana farm-town boy, putting himself through college by working the day shift at International Harvester and attending Indiana University at night. One day, he lost part of a finger on the job. The story goes that he went to class that evening and returned to work the next day. While that might be a bit of an exaggeration, he clearly did not let a lost finger slow down his progress toward graduation. He kept working full-time, he kept going to class at night, and he earned admission to Harvard Law School.[6] Later in life, two months after becoming CEO, doctors diagnosed Smith with nose and throat cancer, predicting he had less than a year to live. He informed the board but made it clear that he was not dead yet and had no plans to die anytime soon. Smith held fully to his demanding work schedule while commuting weekly from Wisconsin to Houston for radiation therapy and lived twenty-five more years, most of them as CEO.'

Smith brought that same ferocious resolve to rebuilding Kimberly-Clark, especially when he made the most dramatic decision in the company's history: Sell the mills.[8] Shortly after he became CEO, Smith and his team had concluded that the traditional core business—coated paper—was doomed to mediocrity. Its economics were bad and the competition weak.[9] But, they reasoned, if Kimberly-Clark thrust itself into the

BEFORE DARWIN SMITH
Kimberly-Clark, Cumulative Value of $1 Invested,
1951 – 1971

DARWIN SMITH TENURE
Kimberly-Clark, Cumulative Value of $1 Invested,
1971 – 1991





LEVEL 5 HIERARCHY

fire of the consumer paper-products industry, world-class competition like Procter & Gamble would force it to achieve greatness or perish.

So, like the general who burned the boats upon landing, leaving only one option (succeed or die), Smith announced the decision to sell the mills, in what one board member called the gutsiest move he'd ever seen a CEO make. Sell even the mill in Kimberly, Wisconsin, and throw all the proceeds into the consumer business, investing in brands like Huggies and Kleenex.[10]

The business media called the move stupid and Wall Street analysts downgraded the stock.[11] Smith never wavered. Twenty-five years later, Kimberly-Clark owned Scott Paper outright and beat Procter & Gamble in six of eight product categories.[12] In retirement, Smith reflected on his exceptional performance, saying simply, "I never stopped trying to become qualified for the job."[13]

NOT WHAT WE EXPECTED

Darwin Smith stands as a classic example of what we came to call a Level 5 leader—an individual who blends extreme personal humility with intense professional will. We found leaders of this type at the helm of every good-to-great company during the transition era. Like Smith, they were self-effacing individuals who displayed the fierce resolve to do whatever needed to be done to make the company great.

> Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. It's not that Level 5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious—*but their ambition is first and foremost for the institution, not themselves.*

The term Level 5 refers to the highest level in a hierarchy of executive capabilities that we identified in our research. (See the diagram on page 20.) While you don't need to move in sequence from Level 1 to Level 5—it might be possible to fill in some of the lower levels later—fully developed Level 5 leaders embody all five layers of the pyramid. I am not going to belabor all five levels here, as Levels 1 through 4 are somewhat self-explanatory and are discussed extensively by other authors. This chapter will focus instead on the distinguishing traits of the good-to-great leaders—namely level 5 traits—in contrast to the comparison leaders in our study.

But first, please permit a brief digression to set an important context. We were not looking for Level 5 leadership or anything like it. In fact, I gave the research team explicit instructions to downplay the role of top executives so that we could avoid the simplistic "credit the leader" or "blame the leader" thinking common today.

To use an analogy, the "Leadership is the answer to everything" perspective is the modern equivalent of the "God is the answer to everything" perspective that held back our scientific understanding of the physical world in the Dark Ages. In the 1500s, people ascribed all events they didn't understand to God. Why did the crops fail? God did it. Why did we have an earthquake? God did it. What holds the planets in place? God. But with the Enlightenment, we began the search for a more scientific understanding—physics, chemistry, biology, and so forth. Not that we became atheists, but we gained deeper understanding about how the universe ticks.

Similarly, every time we attribute everything to "Leadership," we're no different from people in the 1500s. We're simply admitting our ignorance. Not that we should become leadership atheists (leadership does matter), but every time we throw our hands up in frustration—reverting back to "Well, the answer must be Leadership!"—we prevent ourselves from gaining deeper, more scientific understanding about what makes great companies tick.

So, early in the project, I kept insisting, "Ignore the executives." But the research team kept pushing back, "No! There is something consistently unusual about them. We can't ignore them." And I'd respond, "But the comparison companies also had leaders, even some great leaders. So, what's different?" Back and forth the debate raged.

Finally—as should always be the case—the data won.

The good-to-great executives were all cut from the same cloth. It didn't matter whether the company was consumer or industrial, in crisis or steady state, offered services or products. It didn't matter when the transition took place or how big the company. All the good-to-great companies had Level 5 leadership at the time of transition. Furthermore, the absence of Level 5 leadership showed up as a consistent pattern in the comparison companies. Given that Level 5 leadership cuts against the grain of conventional wisdom, especially the belief that we need larger-than-life saviors with big personalities to transform companies, it is important to note that Level 5 is an empirical finding, not an ideological one.

HUMILITY + WILL = LEVEL 5

Level 5 leaders are a study in duality: modest and willful, humble and fearless. To quickly grasp this concept, think of United States President Abraham Lincoln (one of the few Level 5 presidents in United States history), who never let his ego get in the way of his primary ambition for the larger cause of an enduring great nation. Yet those who mistook Mr. Lincoln's personal modesty, shy nature, and awkward manner as signs of weakness found themselves terribly mistaken, to the scale of 250,000 Confederate and 360,000 Union lives, including Lincoln's own.[14]

While it might be a bit of a stretch to compare the good-to-great CEOs to Abraham Lincoln, they did display the same duality. Consider the case of Colman Mockler, CEO of Gillette from 1975 to 1991. During Mockler's tenure, Gillette faced three attacks that threatened to destroy the company's opportunity for greatness. Two attacks came as hostile takeover bids from Revlon, led by Ronald Perelman, a cigar-chomping raider with a reputation for breaking apart companies to pay down junk bonds and finance more hostile raids.[15] The third attack came from Coniston Partners, an investment group that bought 5.9 percent of Gillette stock and initiated a proxy battle to seize control of the board, hoping to sell the company to the highest bidder and pocket a quick gain on their shares.[16] Had Gillette been flipped to Perelman at the price he offered, shareowners would have reaped an instantaneous 44 percent gain on their stock." Looking at a $2.3 billion short-term stock profit across 116 million shares, most executives would have capitulated, pocketing millions from flipping their own stock and cashing in on generous golden parachutes.[18]

Colman Mockler did not capitulate, choosing instead to fight for the future greatness of Gillette, even though he himself would have pocketed a substantial sum on his own shares. A quiet and reserved man, always courteous, Mockler had the reputation of a gracious, almost patrician gentleman. Yet those who mistook Mockler's reserved nature for weakness found themselves beaten in the end. In the proxy fight, senior Gillette executives reached out to thousands of individual investors—person by person, phone call by phone call—and won the battle.

Now, you might be thinking, "But that just sounds like self-serving entrenched management fighting for their interests at the expense of shareholder interests." On the surface, it might look that way, but consider two key facts.

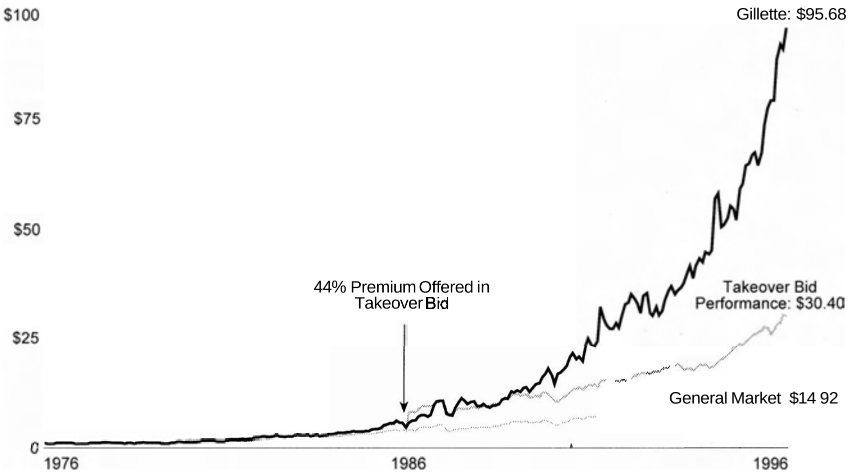
First, Mockler and his team staked the company's future on huge investments in radically new and technologically advanced systems (later known as Sensor and Mach3). Had the takeover been successful, these projects would almost certainly have been curtailed or eliminated, and none of us would be shaving with Sensor, Sensor for Women, or the Mach3-leaving hundreds of millions of people to a more painful daily battle with stubble.[19]

Second, at the time of the takeover battle, Sensor promised significant future profits that were not reflected in the stock price because it was in secret development. With Sensor in mind, the board and Mockler believed that the future value of the shares far exceeded the current price,

COLMAN MOCKLER'S TRIUMPH

Cumulative Value of $1 Invested, 1976 – 1996

Gillette versus Takeover Bid and Market



This chart shows how an investor would have fared under the following scenarios:

1. $1 invested in Gillette, held from December 31, 1976 through December 31, 1996.
2. $1 invested in Gillette. held from December 31, 1976 but then sold to Ronald Perelman for a 44.44% premium on October 31, 1986. the proceeds then invested in the general stock market.
3. $1 invested in General Market held from December 31.1976 through December 31,1996.

even with the price premium offered by the raiders. To sell out would have made short-term shareflippers happy but would have been utterly irresponsible to long-term shareholders.

In the end, Mockler and the board were proved right, stunningly so. If a shareflipper had accepted the 44 percent price premium offered by Ronald Perelman on October 31, 1986, and then invested the full amount in the general market for ten years, through the end of 1996, he would have come out three times worse off than a shareholder who had stayed with Mockler and Gillette.[20] Indeed, the company, its customers, and the shareholders would have been ill served had Mockler capitulated to the raiders, pocketed his millions, and retired to a life of leisure.

Sadly, Mockler was never able to enjoy the full fruits of his effort. On January 25, 1991, the Gillette team received an advance copy of the cover of Forbes magazine, which featured an artist's rendition of Mockler standing atop a mountain holding a giant razor above his head in a triumphal pose, while the vanquished languish on the hillsides below. The other executives razzed the publicity-shy Mockler, who had likely declined requests to be photographed for the cover in the first place, amused at seeing him portrayed as a corporate version of Conan the Triumphant. Walking back to his office, minutes after seeing this public acknowledgment of his sixteen years of struggle, Mockler crumpled to the floor, struck dead by a massive heart attack.[21]

I do not know whether Mockler would have chosen to die in harness, but I am quite confident that he would not have changed his approach as chief executive. His placid persona hid an inner intensity, a dedication to making anything he touched the best it could possibly be—not just because of what he would get, but because he simply couldn't imagine doing it any other way. It wouldn't have been an option within Colman Mockler's value system to take the easy path and turn the company over to those who would milk it like a cow, destroying its potential to become great, any more than it would have been an option for Lincoln to sue for peace and lose forever the chance of an enduring great nation.

Ambition for the Company: Setting Up Successors for Success

When David Maxwell became CEO of Fannie Mae in 1981, the company was losing $1 million every single business day. Over the next nine years, Maxwell transformed Fannie Mae into a high-performance culture that rivaled the best Wall Street firms, earning $4 million every business day and beating the general stock market 3.8 to 1. Maxwell retired while still at the top of his game, feeling that the company would be ill served if he stayed on too long, and turned the company over to an equally capable successor, Jim Johnson. Shortly thereafter, Maxwell's retirement package, which had grown to be worth $20 million based on Fannie Mae's spectacular performance, became a point of controversy in Congress (Fannie Mae operates under a government charter). Maxwell responded by writing a letter to his successor, in which he expressed concern that the controversy would trigger an adverse reaction in Washington that could jeopardize the future of the company. He then instructed Johnson not to pay him the remaining balance—$5.5 million—and asked that the entire amount be contributed to the Fannie Mae foundation for low-income housing.[22]

David Maxwell, like Darwin Smith and Colman Mockler, exemplified a key trait of Level 5 leaders: ambition first and foremost for the company and concern for its success rather than for one's own riches and personal renown. Level 5 leaders want to see the company even more successful in the next generation, comfortable with the idea that most people won't even know that the roots of that success trace back to their efforts. As one Level 5 leader said, "I want to look out from my porch at one of the great companies in the world someday and be able to say, 'I used to work there.' "

In contrast, the comparison leaders, concerned more with their own reputation for personal greatness, often failed to set the company up for success in the next generation. After all, what better testament to your own personal greatness than that the place falls apart after you leave?

> In over three quarters of the comparison companies, we found executives who set their successors up for failure or chose weak successors, or both.

Some had the "biggest dog" syndrome- they didn't mind other dogs in the kennel, as long as they remained the biggest one. One comparison CEO was said to have treated successor candidates "the way Henry the VIII treated wives."[23]

Consider the case of Rubbermaid, an unsustained comparison company that grew from obscurity to number one on Forfune's annual list of America's Most Admired Companies and then, just as quickly, disintegrated into such sorry shape that it had to be acquired by Newellto save itself. The architect of this remarkable story, a charismatic and brilliant leader named Stanley Gault, became synonymous in the late 1980s with the success of the company. In 312 articles collected on Rubbermaid, Gault comes through as a hard-driving, egocentric executive. In one article, he responds to the accusation of being a tyrant with the statement, "Yes, but I'm a sincere tyrant."[24] In another, drawn directly from his own comments on leading change, the word I appears forty-four times ("I could lead the charge"; "I wrote the twelve objectives"; "I presented and explained the objectives"), whereas the word we appears just sixteen times.[25] Gault had every reason to be proud of his executive success. Rubbermaid generated forty consecutive quarters of earnings growth under his leadership—an impressive performance, and one that deserves respect.

But—and this is the key point—Gault did not leave behind a company that would be great without ***him.*** His chosen successor lasted only one year on the job and the next in line faced a management team so shallow that he had to temporarily shoulder four jobs while scrambling to identify a new number two executive.[26] Gault's successors found themselves struggling not only with a management void, but also with strategic voids that would eventually bring the company to its knees.[27]

Of course, you might say, "Yes, Rubbermaid fell apart after Gault, but that just proves his personal greatness as a leader." Exactly! Gault was indeed a tremendous Level 4 leader, perhaps one of the best in the last fifty years. But he was not a Level 5 leader, and that is one key reason why Rubbermaid went from good to great for a brief shining moment and then, just as quickly, went from great to irrelevant.

A Compelling Modesty

In contrast to the very I-centric style of the comparison leaders, we were struck by how the good-to-great leaders didn't talk about themselves. During interviews with the good-to-great leaders, they'd talk about the company and the contributions of other executives as long as we'd like but would deflect discussion about their own contributions. When pressed to talk about themselves, they'd say things like, "I hope I'm not sounding like a big shot." Or, "If the board hadn't picked such great successors, you probably wouldn't be talking with me today." Or, "Did I have a lot to do with it? Oh, that sounds so self-serving. I don't think I can take much credit. We were blessed with marvelous people." Or, "There are plenty of people in this company who could do my job better than I do."

It wasn't just false modesty. Those who worked with or wrote about the good-to-great leaders continually used words like quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated, did not believe his own clippings; and so forth. Board member Jim Hlavacek described Ken Iverson, the CEO who oversaw Nucor's transformation from near bankruptcy to one of the most successful steel companies in the world:

> Ken is a very modest and humble man. I've never known a person as successful in doing what he's done that's as modest. And, I work for a lot of CEOs of large companies. And that's true in his private life as well. The simplicity of him. I mean little things like he always gets his dogs at the local pound. He has a simple house that's he's lived in for ages. He only has a carport and he complained to me one day about how he had to use

> his credit card to scrape the frost off his windows and he broke the credit card. "You know, Ken, there's a solution for it; enclose your carport." And he said, "Ah, heck, it isn't that big of a deal. . . ." He's that humble and simple.[28]

The eleven good-to-great CEOs are some of the most remarkable CEOs of the century, given that only eleven companies from the Fortune 500 met the exacting standards for entry into this study. Yet, despite their remarkable results, almost no one ever remarked about them! George Cain, Alan Wurtzel, David Maxwell, Colman Mockler, Darwin Smith, Jim Herring, Lyle Everingham, Joe Cullman, Fred Allen, Cork Walgreen, Carl Reichardt—how many of these extraordinary executives had you heard of?

> When we systematically tabulated all 5,979 articles in the study, we found fewer articles surrounding the transition date for the good-to-great companies than for the comparisons, by a factor of two.[29] Furthermore, we rarely found articles that focused on the good-to-great CEOs.

The good-to-great leaders never wanted to become larger-than-life heroes. They never aspired to be put on a pedestal or become unreachable icons. They were seemingly ordinary people quietly producing extraordinary results.

Some of the comparison leaders provide a striking contrast. Scott Paper, the comparison company to Kimberly-Clark, hired a CEO named Al Dunlap, a man cut from a very different cloth than Darwin Smith. Dunlap loudly beat on his own chest, telling anyone who would listen (and many who would prefer not to) about what he had accomplished. Quoted in Business Week about his nineteen months atop Scott Paper, he boasted, "The Scott story will go down in the annals of American business history as one of the most successful, quickest turnarounds ever, [making] other turnarounds pale by comparison."[30]

According to Business Week, Dunlap personally accrued $100 million for 603 days of work at Scott Paper (that's $165,000 per day), largely by slashing the workforce, cutting the R&D budget in half, and putting the company on growth steroids in preparation for sale.[31] After selling off the company and pocketing his quick millions, Dunlap wrote a book about himself, in which he trumpeted his nickname Rambo in Pinstripes. "I love the Rambo movies," he wrote. "Here's a guy who has zero chance of success and always wins. Rambo goes into situations against all odds, expecting to get his brains blown out. But he doesn't. At the end of the day he succeeds, he gets rid of the bad guys. He creates peace out of war. That's what I do, too."[32] Darwin Smith may have enjoyed the mindless Rambo movies as well, but I suspect he never walked out of a theater and said to his wife, "You know, I really relate to this Rambo character; he reminds me of me."

Granted, the Scott Paper story is one of the more dramatic in our study, but it's not an isolated case. In over two thirds of the comparison cases, we noted the presence of a gargantuan personal ego that contributed to the demise or continued mediocrity of the company.[33]

We found this pattern particularly strong in the unsustained comparisons—cases where the company would show a leap in performance under a talented yet egocentric leader, only to decline in later years. Lee Iacocca, for example, saved Chrysler from the brink of catastrophe, performing one of the most celebrated (and deservedly so) turnarounds in American business history. Chrysler rose to a height of 2.9 times the market at a point about halfway through his tenure. Then, however, he diverted his attention to making himself one of the most celebrated CEOs in American business history. Investor's Business Daily and the Wall Street Journal chronicled how Iacocca appeared regularly on talk shows like the Today show and Larry King Live, personally starred in over eighty commercials, entertained the idea of running for president of the United States (quoted at one point, "Running Chrysler has been a bigger job than running the country. . . . I could handle the national economy in six months"), and widely promoted his autobiography. The book, Iacocca, sold seven million copies and elevated him to rock star status, leading him to be mobbed by thousands of cheering fans upon his arrival in Japan.[34] Iacocca's personal stock soared, but in the second half of his tenure, Chrysler's stock fell 31 percent behind the general market.

Sadly, Iacocca had trouble leaving center stage and letting go of the perks of executive kingship. He postponed his retirement so many times that insiders at Chrysler began to joke that Iacocca stood for "I Am Chairman of Chrysler Corporation Always."[35] And when he did finally retire, he demanded that the board continue to provide a private jet and stock options.[36] Later, he joined forces with noted takeover artist Kirk Kerkorian to launch a hostile takeover bid for Chrysler.[37]

Chrysler experienced a brief return to glory in the five years after Iacocca's retirement, but the company's underlying weaknesses eventually led to a buyout by German carmaker Daimler-Benz.[38] Certainly, the demise of Chrysler as a stand-alone company does not rest entirely on Iacocca's shoulders (the next generation of management made the fateful decision to sell the company to the Germans), but the fact remains: Iacocca's brilliant turnaround in the early 1980s did not prove to be sustained and Chrysler failed to become an enduring great company.

Unwavering Resolve. . . to Do What Must Be Done

It is very important to grasp that Level 5 leadership is not just about humility and modesty. It is equally about ferocious resolve, an almost stoic determination to do whatever needs to be done to make the company great.

Indeed, we debated for a long time on the research team about how to describe the good-to-great leaders. Initially, we penciled in terms like "selfless executive" and "servant leader." But members of the team violently objected to these characterizations.

"Those labels don't ring true," said Anthony Chirikos. "It makes them sound weak or meek, but that's not at all the way I think of Darwin Smith or Colman Mockler. They would do almost anything to make the company great."

Then Eve Li suggested, "Why don't we just call them Level 5 leaders? If we put a label like 'selfless' or 'servant' on them, people will get entirely the wrong idea. We need to get people to engage with the whole concept, to see both sides of the coin. If you only get the humility side, you miss the whole idea."

Level 5 leaders are fanatically driven, infected with an incurable need to produce results. They will sell the mills or fire their brother, if that's what it takes to make the company great.

When George Cain became CEO of Abbott Laboratories, it sat in the bottom quartile of the pharmaceutical industry, a drowsy enterprise that had lived for years off its cash cow, erythromycin. Cain didn't have an inspiring personality to galvanize the company, but he had something much more powerful: inspired standards. He could not stand mediocrity in any form and was utterly intolerant of anyone who would accept the idea that good is good enough. Cain then set out to destroy one of the key causes of Abbott's mediocrity: nepotism. Systematically rebuilding both the board and the executive team with the best people he could find, Cain made it clear that neither family ties nor length of tenure would have anything to do with whether you held a key position in the company. If you didn't have the capacity to become the best executive in the industry in your span of responsibility, then you would lose your paycheck.[39]

Such rigorous rebuilding might be expected from an outsider brought in to turn the company around, but Cain was an eighteen-year veteran insider *and* a family member, the son of a previous Abbott president. Holiday gatherings were probably tense for a few years in the Cain clan. ("Sorry I had to fire you. Want another slice of turkey?") In the end, though, family members were quite pleased with the performance of their stock, for Cain set in motion a profitable growth machine that, from its transition date in 1974 to 2000, created shareholder returns that beat the market 4.5 to 1, handily outperforming industry superstars Merck and Pfizer.

Upjohn, the direct comparison company to Abbott, also had family leadership during the same era as George Cain. Unlike George Cain, Upjohn's CEO never showed the same resolve to break the mediocrity of nepotism. By the time Abbott had filled all key seats with the best people, regardless of family background, Upjohn still had B level family members holding key positions.[40] Virtually identical companies with identical stock charts up to the point of transition, Upjohn then fell 89 percent behind Abbott over the next twenty-one years before capitulating in a merger to Pharmacia in 1995.

As an interesting aside, Darwin Smith, Colman Mockler, and George Cain came from inside the company. Stanley Gault, Al Dunlap, and Lee Iacocca rode in as saviors from the outside, trumpets blaring. This reflects a more systematic finding from our study. The evidence does not support the idea that you need an outside leader to come in and shake up the place to go from good to great. In fact, going for a high-profile outside change agent is *negatively correlated* with a sustained transformation from good to great. (See Appendix 2.A.)

Ten out of eleven good-to-great CEOs came from *inside* the company, three of them by family inheritance. The comparison companies turned to outsiders with *six times* greater frequency—yet they failed to produce sustained great results.[41]

A superb example of insider-driven change comes from Charles R. "Cork" Walgreen 3d, who transformed dowdy Walgreens into a company that outperformed the stock market by over fifteen times from the end of 1975 to January 1, 2000.[42] After years of dialogue and debate within his executive team about Walgreens' food-service operations, Cork sensed that the team had finally reached a watershed point of clarity and understanding: Walgreens' brightest future lay in convenient drugstores, not food service. Dan Jorndt, who succeeded Walgreen as CEO in 1998, described what happened next:

> Cork said at one of our planning committee meetings, "Okay, now I am going to draw the line in the sand. We are going to be out of the restaurant business completely in five years." At the time, we had over five hundred restaurants. You could have heard a pin drop. He said, "I want to let everybody know the clock is ticking. . . ." Six months later, we were at our next planning committee meeting and someone mentioned just in passing that we only had five years to be out of the restaurant business. Cork was not a real vociferous fellow. He sort of tapped on the table and said, "Listen, you have four and a half years. I said you had five years six months ago. Now you've got four and a half years." Well, that next day, things really clicked into gear to winding down our restaurant business. He never wavered. He never doubted; he never second-guessed.[43]

Like Darwin Smith selling the mills at Kimberly-Clark, Cork Walgreen's decision required stoic resolve. Not that food service was the largest part of the business (although it did add substantial profits to the bottom line). The real problem was more emotional. Walgreens had, after all, invented the malted milkshake and food service was a long-standing family tradition dating back to his grandfather. Some food-service outlets were even named after the CEO himself—a restaurant chain named Corky's. But no matter, if Walgreens had to fly in the face of long-standing family tradition in order to focus its resources where it could be the best in the world (convenient drugstores), Cork would do it. Quietly, doggedly, simply.[44]

The quiet, dogged nature of Level 5 leaders showed up not only in big decisions, like selling off the food-service operations or fighting corporate raiders, but also in a personal style of sheer workmanlike diligence. Alan Wurtzel, a second-generation family member who took over his family's small company and turned it into Circuit City, perfectly captured the gestalt of this trait. When asked about differences between himself and his counterpart CEO at Circuit City's comparison company, Wurtzel summed up: "The show horse and the plow horse—he was more of a show horse, whereas I was more of a plow horse."[45]

The Window and the Mirror

Alan Wurtzel's plow horse comment is fascinating in light of two other facts. First, he holds a doctor of jurisprudence degree from Yale—clearly, his plow horse nature had nothing to do with a lack of intelligence. Second, his plow horse approach set the stage for truly best in show results. Let me put it this way: If you had to choose between $1 invested in Circuit City or $1 invested in General Electric on the day that the legendary Jack Welch took over GE in 1981 and held to January 1,2000, you would have been better off with Circuit City—by six times.[46] Not a bad performance, for a plow horse.

You might expect that extraordinary results like these would lead Alan Wurtzel to discuss the brilliant decisions he made. But when we asked him to list the top five factors in his company's transformation, ranked by importance, Wurtzel gave a surprising answer: The number one factor was luck. "We were in a great industry, with the wind at our backs."

We pushed back, pointing out that we selected the good-to-great companies based on performance that surpassed their industry's average. Furthermore, the comparison company (Silo) was in the same industry, with the same wind and probably bigger sails! We debated the point for a few minutes, with Wurtzel continuing his preference for attributing much of his success to just being in the right place at the right time. Later, when asked to discuss the factors behind the enduring nature of the transformation, he said, "The first thing that comes to mind is luck. . . . I was lucky to find the right successor."[47]

Luck. What an odd factor to talk about. Yet the good-to-great executives talked a lot about luck in our interviews. In one interview with a

Nucor executive, we asked why the company had such a remarkable track record of good decisions; he responded: "I guess we were just lucky."[48] Joseph F. Cullman 3d, the Level 5 transition CEO of Philip Morris, flat-out refused to take credit for his company's success, attributing his good fortune to having great colleagues, successors, and predecessors. Even the book he wrote—a book he undertook at the urging of his colleagues, which he never intended to distribute widely outside the company—had the unusual title I'm a Lucky Guy. The opening paragraph reads: "I was a very lucky guy from the very beginning of my life: marvelous parents, good genes, lucky in love, lucky in business, and lucky when a Yale classmate had my orders changed to report to Washington, D.C., in early 1941, instead of to a ship that was sunk with all hands lost in the North Atlantic, lucky to be in the Navy, and lucky to be alive at eighty-five."[50]

We were at first puzzled by this emphasis on good luck. After all, we found no evidence that the good-to-great companies were blessed with more good luck (or more bad luck, for that matter) than the comparison companies. Then we began to notice a contrasting pattern in the comparison executives: They credited substantial blame to bad luck, frequently bemoaning the difficulties of the environment they faced.

Compare Bethlehem Steel to Nucor. Both companies operated in the steel industry and produced hard-to-differentiate products. Both companies faced the competitive challenge of cheap imported steel. Yet executives at the two companies had completely different views of the same environment. Bethlehem Steel's CEO summed up the company's problems in 1983 by blaming imports: "Our first, second, and third problems are imports."[51] Ken Iverson and his crew at Nucor considered the same challenge from imports a blessing, a stroke of good fortune ("Aren't we lucky; steel is heavy, and they have to ship it all the way across the ocean, giving us a huge advantage!"). Iverson saw the first, second, and third problems facing the American steel industry not to be imports, but management.[52] He even went so far as to speak out publicly against government protection against imports, telling a stunned gathering of fellow steel executives in 1977 that the real problems facing the American steel industry lay in the fact that management had failed to keep pace with innovation.[53]

The emphasis on luck turns out to be part of a pattern that we came to call the window and the mirror.

> Level 5 leaders look out the window to apportion credit to factors outside themselves when things go well (and if they cannot find a specific person or event to give credit to, they credit good luck). At the same time, they look in the mirror to apportion responsibility, never blaming bad luck when things go poorly.

The comparison leaders did just the opposite. They'd look out the window for something or someone outside themselves to blame for poor results, but would preen in front of the mirror and credit themselves when things went well. Strangely, the window and the mirror do not reflect objective reality. Everyone outside the window points inside, directly at the Level 5 leader, saying, "He was the key; without his guidance and leadership, we would not have become a great company." And the Level 5 leader points right back out the window and says, "Look at all the great people and good fortune that made this possible; I'm a lucky guy." They're both right, of course. But the Level 5s would never admit that fact.

CULTIVATING LEVEL 5 LEADERSHIP

Not long ago, I shared the Level 5 finding with a gathering of senior executives. A woman who had recently become chief executive of her company raised her hand and said, "I believe what you say about the good-to-great leaders. But I'm disturbed because when I look in the mirror, I know that I'm not Level 5, not yet anyway. Part of the reason I got this job is because of my ego drives. Are you telling me that I can't make this a great company if I'm not Level 5?"

"I don't know for certain that you absolutely must be a Level 5 leader to make your company great," I replied. "I will simply point back to the data: Of 1,435 companies that appeared on the Fortune 500 in our initial candidate list, only eleven made the very tough cut into our study. In those eleven, all of them had Level 5 leadership in key positions, including the CEO, at the pivotal time of transition."

She sat there, quiet for moment, and you could tell everyone in the room was mentally urging her to ask *the question.* Finally, she said, "Can you learn to become Level 5?"

Summary: The Two Sides of Level 5 Leadership

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

My hypothesis is that there are two categories of people: those who do not have the seed of Level 5 and those who do. The first category consists of people who could never in a million years bring themselves to subjugate their egoistic needs to the greater ambition of building something larger and more lasting than themselves. For these people, work will always be first and foremost about what they get—fame, fortune, adulation, power, whatever—not what they build, create, and contribute.

> The great irony is that the animus and personal ambition that often drive people to positions of power stand at odds with the humility required for Level 5 leadership. When you combine that irony with the fact that boards of directors frequently operate under the false belief

that they need to hire a larger-than-life, egocentric leader to make an organization great, you can quickly see why Level 5 leaders rarely appear at the top of our institutions.

The second category of people—and I suspect the larger group—consists of those who have the potential to evolve to Level 5; the capability resides within them, perhaps buried or ignored, but there nonetheless. And under the right circumstances—self-reflection, conscious personal development, a mentor, a great teacher, loving parents, a significant life experience, a Level 5 boss, or any number of other factors—they begin to develop.

In looking at the data, we noticed that some of the leaders in our study had significant life experiences that might have sparked or furthered their maturation. Darwin Smith fully blossomed after his experience with cancer. Joe Cullman was profoundly affected by his World War II experiences, particularly the last-minute change of orders that took him off a doomed ship on which he surely would have died.[54] A strong religious belief or conversion might also nurture development of Level 5 traits. Colman Mockler, for example, converted to evangelical Christianity while getting his MBA at Harvard, and later, according to the book Cutting Edge, became a prime mover in a group of Boston business executives who met frequently over breakfast to discuss the carryover of religious values to corporate life.[55] Other leaders in our study, however, had no obvious catalytic event; they just led normal lives and somehow ended up atop the Level 5 hierarchy.

I believe—although I cannot prove—that potential Level 5 leaders are highly prevalent in our society. The problem is not, in my estimation, a dearth of potential Level 5 leaders. They exist all around us, if we just know what to look for. And what is that? Look for situations where extraordinary results exist but where no individual steps forth to claim excess credit. You will likely find a potential Level 5 leader at work.

For your own development, I would love to be able to give you a list of steps for becoming Level 5, but we have no solid research data that would support a credible list. Our research exposed Level 5 as a key component inside the black box of what it takes to shift a company from good to great. Yet inside that black box is yet another black box—namely, the inner development of a person to Level 5. We could speculate on what might be inside that inner black box, but it would mostly be just that—speculation. So, in short, Level 5 is a very satisfying idea, a powerful idea, and, to produce the best transitions from good to great, perhaps an essential idea. A "Ten-Step List to Level 5" would trivialize the concept.

My best advice, based on the research, is to begin practicing the other good-to-great disciplines we discovered. We found a symbiotic relationship between Level 5 and the remaining findings. On the one hand, Level 5 traits enable you to implement the other findings; on the other hand, practicing the other findings helps you to become Level 5. Think of it this way: This chapter is about what Level 5s are; the rest of the book describes what they do. Leading with the other disciplines can help you move in the right direction. There is no guarantee that doing so will turn you into a full-fledged Level 5, but it gives you a tangible place to begin.

We cannot say for sure what percentage of people have the seed within, or how many of those can nurture it. Even those of us who discovered Level 5 on the research team do not know for ourselves whether we will succeed in fully evolving to Level 5. And yet, all of us who worked on the finding have been deeply affected and inspired by the idea. Darwin Smith, Colman Mockler, Alan Wurtzel, and all the other Level 5s we learned about have become models for us, something worthy to aspire toward. Whether or not we make it all the way to Level 5, it is worth the effort. For like all basic truths about what is best in human beings, when we catch a glimpse of that truth, we know that our own lives and all that we touch will be the better for the effort.

CHAPTER SUMMARY

LEVEL 5 LEADERSHIP

KEY POINTS

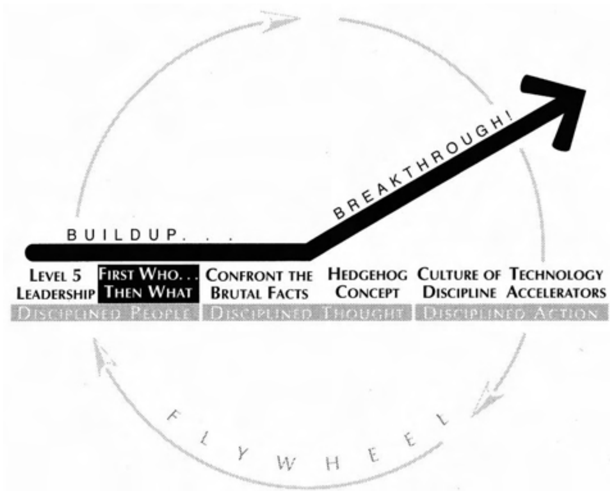
- Every good-to-great company had Level 5 leadership during the pivotal transition years.
- "Level 5" refers to a five-level hierarchy of executive capabilities, with Level 5 at the top. Level 5 leaders embody a paradoxical mix of personal humility and professional will. They are ambitious, to be sure, but ambitious first and foremost for the company, not themselves.
- Level 5 leaders set up their successors for even greater success in the next generation, whereas egocentric Level 4 leaders often set up their successors for failure.
- Level 5 leaders display a compelling modesty, are self-effacing and understated. In contrast, two thirds of the comparison companies had leaders with gargantuan personal egos that contributed to the demise or continued mediocrity of the company.
- Level 5 leaders are fanatically driven, infected with an incurable need to produce sustained *results*. They are resolved to do whatever it takes to make the company great, no matter how big or hard the decisions.
- Level 5 leaders display a workmanlike diligence—more plow horse than show horse.
- Level 5 leaders look out the window to attribute success to factors other than themselves. When things go poorly, however, they look in the mirror and blame themselves, taking full responsibility. The comparison CEOs often did just the opposite—they looked in the mirror to take credit for success, but out the window to assign blame for disappointing results.
- One of the most damaging trends in recent history is the tendency (especially by boards of directors) to select dazzling, celebrity leaders and to de-select potential Level 5 leaders.
- I believe that potential Level 5 leaders exist all around us, if we just know what to look for, and that many people have the potential to evolve into Level 5.

UNEXPECTED FINDINGS

- Larger-than-life, celebrity leaders who ride in from the outside are negatively correlated with going from good to great. Ten of eleven good-to-great CEOs came from *inside* the company, whereas the comparison companies tried outside CEOs six times more often.
- Level 5 leaders attribute much of their success to good luck, rather than personal greatness.
- We were not looking for Level 5 leadership in our research, or anything like it, but the data was overwhelming and convincing. It is an empirical, not an ideological, finding.

C H A P T E R 3

FIRST WHO . . . THEN WHAT



There are going to be times when we can't wait for somebody. Now, you're either on the bus or off the bus.

— KEN KESEY,
from *The Electric Kool-Aid Acid Test*
by Tom Wolfe[1]

When we began the research project, we expected to find that the first step in taking a company from good to great would be to set a new direction, a new vision and strategy for the company, and then to get people committed and aligned behind that new direction.

We found something quite the opposite.

The executives who ignited the transformations from good to great did not first figure out where to drive the bus and then get people to take it there. No, they *first* got the right people on the bus (and the wrong people off the bus) and *then* figured out where to drive it. They said, in essence, "Look, I don't really know where we should take this bus. But I know this much: If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we'll figure out how to take it someplace great."

The good-to-great leaders understood three simple truths. First, if you begin with "who," rather than "what," you can more easily adapt to a changing world. If people join the bus primarily because of where it is going, what happens if you get ten miles down the road and you need to change direction? You've got a problem. But if people are on the bus because of who else is on the bus, then it's much easier to change direction: "Hey, I got on this bus because of who else is on it; if we need to change direction to be more successful, fine with me." Second, if you have the right people on the bus, the problem of how to motivate and manage people largely goes away. The right people don't need to be tightly managed or fired up; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great. Third, if you have the wrong people, it doesn't matter whether you discover the right direction; you still won't have a great company. Great vision without great people is irrelevant.

Consider the case of Wells Fargo. Wells Fargo began its fifteen-year stint of spectacular performance in 1983, but the foundation for the shift dates back to the early 1970s, when then-CEO Dick Cooley began building one of the most talented management teams in the industry ***(the*** best team, according to investor Warren Buffett).[2] Cooley foresaw that the banking industry would eventually undergo wrenching change, but he did not pretend to know what form that change would take. So instead of mapping out a strategy for change, he and chairman Ernie Arbuckle focused on "injecting an endless stream of talent" directly into the veins of the company. They hired outstanding people whenever and wherever they found them, often without any specific job in mind. "That's how you build the future," he said. "If I'm not smart enough to see the changes that are coming, they will. And they'll be flexible enough to deal with them."[3]

Cooley's approach proved prescient. No one could predict all the changes that would be wrought by banking deregulation. Yet when these changes came, no bank handled those challenges better than Wells Fargo. At a time when its sector of the banking industry fell 59 percent behind the general stock market, Wells Fargo outperformed the market by over three times.[4]

Carl Reichardt, who became CEO in 1983, attributed the bank's success largely to the people around him, most of whom he inherited from Cooley.[5] As he listed members of the Wells Fargo executive team that had joined the company during the Cooley-Reichardt era, we were stunned. Nearly every person had gone on to become CEO of a major company:

Bill Aldinger became the CEO of Household Finance, Jack Grundhofer became CEO of U.S. Bancorp, Frank Newman became CEO of Bankers Trust, Richard Rosenberg became CEO of Bank of America, Bob Joss became CEO of Westpac Banking (one of the largest banks in Australia) and later became dean of the Graduate School of Business at Stanford University—not exactly your garden variety executive team! Arjay Miller, an active Wells Fargo board member for seventeen years, told us that the Wells Fargo team reminded him of the famed "Whiz Kids" recruited to Ford Motor Company in the late 1940s (of which Miller was a member, eventually becoming president of Ford).6 Wells Fargo's approach was simple: You get the best people, you build them into the best managers in the industry, and you accept the fact that some of them will be recruited to become CEOs of other companies.'

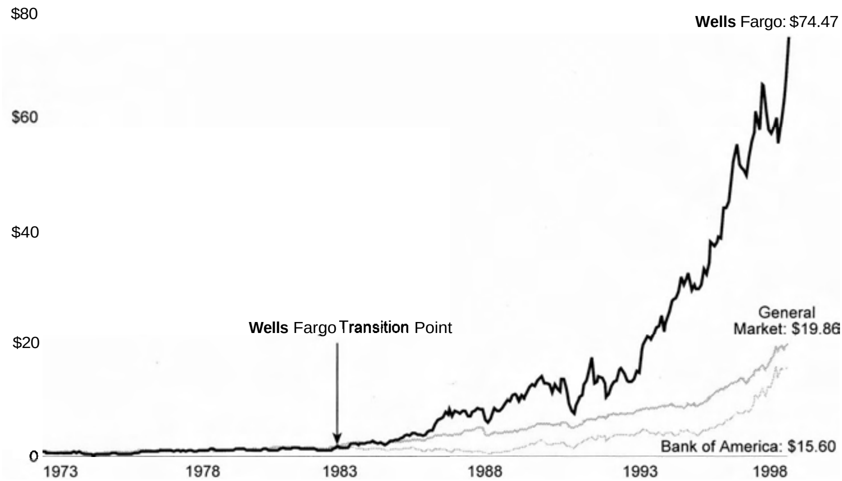
Bank of America took a very different approach. While Dick Cooley systematically recruited the best people he could get his hands on, Bank of America, according to the book Breaking the Bank, followed something called the "weak generals, strong lieutenants" model.8 If you pick strong generals for key positions, their competitors will leave. But if you pick weak generals—placeholders, rather than highly capable executives—then the strong lieutenants are more likely to stick around.

The weak generals model produced a climate very different at Bank of America than the one at Wells Fargo. Whereas the Wells Fargo crew acted as a strong team of equal partners, ferociously debating eyeball-to-eyeball in search of the best answers, the Bank of America weak generals would wait for directions from above. Sam Armacost, who inherited the weak generals model, described the management climate: "I came away quite distressed from my first couple of management meetings. Not only couldn't I get conflict, I couldn't even get comment. They were all waiting to see which way the wind blew."9

A retired Bank of America executive described senior managers in the 1970s as "Plastic People" who'd been trained to quietly submit to the dictates of a domineering CEO.[10] Later, after losing over $1 billion in the mid-1980s, Bank of America recruited a gang of strong generals to turn the bank around. And where did it find those strong generals? From right across the street at Wells Fargo. In fact, Bank of America recruited so many Wells Fargo executives during its turnaround that people inside began to refer to themselves as "Wells of America."'' At that point, Bank of America began to climb upward again, but it was too little too late. From 1973 to 1998, while

Wells Fargo went from buildup to breakthrough results, Bank of America's cumulative stock returns didn't even keep pace with the general market.

WELLS FARCO VERSUS BANK OF AMERICA
Cumulative Value of $1 Invested,
January 1, 1973 – January 1, 1998



Now, you might be thinking, "That's just good management—the idea of getting the right people around you. What's new about that?" On one level, we have to agree; it is just plain old-fashioned good management. But what stands out with such distinction in the good-to-great companies are two key points that made them quite different.

To be clear, the main point of this chapter is not just about assembling the right team—that's nothing new. The main point is to *first* get the right people on the bus (and the wrong people off the bus) *before* you figure out where to drive it. The second key point is the degree of *sheer rigor* needed in people decisions in order to take a company from good to great.

"First who" is a very simple idea to grasp, and a very difficult idea to do—and most don't do it well. It's easy to talk about paying attention to people decisions, but how many executives have the discipline of David Maxwell, who held off on developing a strategy until he got the right people in place, while the company was losing $1 million every single business day with $56 billion of loans underwater? When Maxwell became CEO of Fannie Mae during its darkest days, the board desperately wanted to know how he was going to rescue the company. Despite the immense pressure to act, to do something dramatic, to seize the wheel and start driving, Maxwell focused first on getting the right people on the Fannie Mae management team. His first act was to interview all the officers. He sat them down and said, "Look, this is going to be a very hard challenge. I want you to think about how demanding this is going to be. If you don't think you're going to like it, that's fine. Nobody's going to hate you."[12]

Maxwell made it absolutely clear that there would only be seats for A players who were going to put forth an A+ effort, and if you weren't up for it, you had better get off the bus, and get off now.[13] One executive who had just uprooted his life and career to join Fannie Mae came to Maxwell and said, "I listened to you very carefully, and I don't want to do this." He left and went back to where he came from.[14] In all, fourteen of twenty-six executives left the company, replaced by some of the best, smartest, and hardest-working executives in the entire world of finance.[15] The same standard applied up and down the Fannie Mae ranks as managers at every level increased the caliber of their teams and put immense peer pressure upon each other, creating high turnover at first, when some people just didn't pan out.[16] "We had a saying, 'You can't fake it at Fannie Mae,' " said one executive team member. "Either you knew your stuff or you didn't, and if you didn't, you'd just blow out of here."[17]

Wells Fargo and Fannie Mae both illustrate the idea that "who" questions come before "what" questions—before vision, before strategy, before tactics, before organizational structure, before technology. Dick Cooley and David Maxwell both exemplified a classic Level 5 style when they said, "I don't know where we should take this company, but I do know that if I start with the right people, ask them the right questions, and engage them in vigorous debate, we will find a way to make this company great."

NOT A "GENIUS WITH A THOUSAND HELPERS"

In contrast to the good-to-great companies, which built deep and strong executive teams, many of the comparison companies followed a "genius with a thousand helpers" model. In this model, the company is a platform for the talents of an extraordinary individual. In these cases, the towering genius, the primary driving force in the company's success, is a great asset-as long as the genius sticks around. The geniuses seldom build great management teams, for the simple reason that they don't need one, and often don't want one. If you're a genius, you don't need a Wells Fargo–caliber management team of people who could run their own shows elsewhere. No, you just need an army of good soldiers who can help implement your great ideas. However, when the genius leaves, the helpers are often lost. Or, worse, they try to mimic their predecessor with bold, visionary moves (trying to act like a genius, without being a genius) that prove unsuccessful.

Eckerd Corporation suffered the liability of a leader who had an uncanny genius for figuring out "what" to do but little ability to assemble the right "who" on the executive team. Jack Eckerd, blessed with monumental personal energy (he campaigned for governor of Florida while running his company) and a genetic gift for market insight and shrewd deal making, acquired his way from two little stores in Wilmington, Delaware, to a drugstore empire of over a thousand stores spread across the southeastern United States. By the late 1970s, Eckerd's revenues equaled Walgreens', and it looked like Eckerd might triumph as the great company in the industry. But then Jack Eckerd left to pursue his passion for politics, running for senator and joining the Ford administration in Washington. Without his guiding genius, Eckerd's company began a long decline, eventually being acquired by J. C. Penney.[18]

The contrast between Jack Eckerd and Cork Walgreen is striking. Whereas Jack Eckerd had a genius for picking the right stores to buy, Cork Walgreen had a genius for picking the right people to hire.[19] Whereas Jack Eckerd had a gift for seeing which stores should go in what locations, Cork Walgreen had a gift for seeing which people should go in what seats. Whereas Jack Eckerd failed utterly at the single most important decision facing any executive—the selection of a successor—Cork Walgreen developed multiple outstanding candidates and selected a superstar successor, who may prove to be even better than Cork himself.[20] Whereas Jack Eckerd had no executive team, but instead a bunch of capable helpers assembled to assist the great genius, Cork Walgreen built the best executive team in the industry. Whereas the primary guidance mechanism for Eckerd Corporation's strategy lay inside Jack Eckerd's head, the primary guidance mechanism for Walgreens' corporate

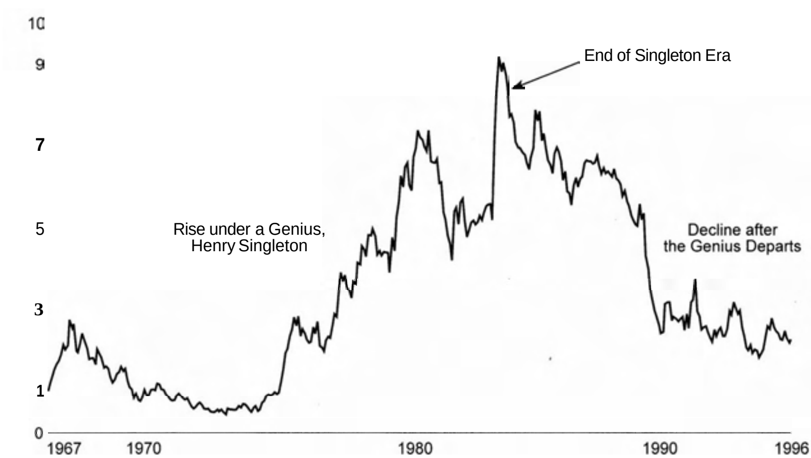
LEVEL 5 + MANAGEMENT TEAM (Good-to-Great Companies)	**A "GENIUS WITH A THOUSAND HELPERS"** (Comparison Companies)
LEVEL 5 LEADER	**LEVEL 4 LEADER**
↓	↓
FIRST WHO Get the right people on the bus. Build a superior executive team.	**FIRST WHAT** Set a vision for where to drive the bus. Develop a road map for driving the bus.
↓	↓
THEN WHAT Once you have the right people in place, figure out the best path to greatness.	**THEN WHO** Enlist a crew of highly capable "helpers" to make the vision happen.

strategy lay in the group dialogue and shared insights of the talented executive team.

The "genius with a thousand helpers" model is particularly prevalent in the unsustained comparison companies. The most classic case comes from a man known as the Sphinx, Henry Singleton of Teledyne. Singleton grew up on a Texas ranch, with the childhood dream of becoming a great businessman in the model of the rugged individualist. Armed with a Ph.D. from MIT, he founded Teledyne.[21] The name Teledyne derives from Greek and means "force applied at a distance"—an apt name, as the central force holding the far-flung empire together was Henry Singleton himself.

Through acquisitions, Singleton built the company from a small enterprise to number 293 on the Fortune 500 list in six years.[22] Within ten years, he'd completed more than 100 acquisitions, eventually creating a far-flung enterprise with 130 profit centers in everything from exotic metals to insurance.[23] Amazingly, the whole system worked, with Singleton

TELEDYNE CORPORATION
A Classic "Genius with a Thousand Helpers"
Ratio of Cumulative Stock Returns to General Market,
January 1, 1967 – January 1, 1996



himself acting as the glue that connected all the moving parts together. At one point, he said, "I define my job as having the freedom to do what seems to me to be in the best interest of the company at any time."[24] A 1978 Forbes feature story maintained, "Singleton will win no awards for humility, but who can avoid standing in awe of his impressive record?" Singleton continued to run the company well into his seventies, with no serious thought given to succession. After all, why worry about succession when the very point of the whole thing is to serve as a platform to leverage the talents of your remarkable genius? "If there is a single weakness in this otherwise brilliant picture," the article continued, "it is this: Teledyne is not so much a system as it is the reflection of one man's singular discipline."[25]

What a weakness it turned out to be. Once Singleton stepped away from day-to-day management in the mid-1980s, the far-flung empire began to crumble. From the end of 1986 until its merger with Allegheny in 1995, Teledyne's cumulative stock returns imploded, falling 66 percent behind the general stock market. Singleton achieved his childhood dream of becoming a great businessman, but he failed utterly at the task of building a great company.

IT'S WHO YOU PAY, NOT HOW YOU PAY THEM

We expected to find that changes in incentive systems, especially executive incentives, would be highly correlated with making the leap from good to great. With all the attention paid to executive compensation—the shift to stock options and the huge packages that have become commonplace—surely, we thought, the amount and structure of compensation must play a key role in going from good to great. How else do you get people to do the right things that create great results?

We were dead wrong in our expectations.

> We found no systematic pattern linking executive compensation to the process of going from good to great. The evidence simply does not support the idea that the specific structure of executive compensation acts as a key lever in taking a company from good to great.

We spent weeks inputting compensation data from proxy statements and performed 112 separate analyses looking for patterns and correlations. We examined everything we could quantify for the top five officers—cash versus stock, long-term versus short-term incentives, salary versus bonus, and so forth. Some companies used stock extensively; others didn't. Some had high salaries; others didn't. Some made significant use of bonus incentives; others didn't. Most importantly, when we analyzed executive compensation patterns relative to comparison companies, we found no systematic differences on the use of stock (or not), high salaries (or not), bonus incentives (or not), or long-term compensation (or not). The only significant difference we found was that the good-to-great executives received slightly less total cash compensation ten years after the transition than their counterparts at the still-mediocre comparison companies![26]

Not that executive compensation is irrelevant. You have to be basically rational and reasonable (I doubt that Colman Mockler, David Maxwell, or Darwin Smith would have worked for free), and the good-to-great companies did spend time thinking about the issue. But once you've structured something that makes basic sense, executive compensation falls away as a distinguishing variable in moving an organization from good to great.

Why might that be? It is simply a manifestation of the "first who" principle: It's not how you compensate your executives, it's which executives you have to compensate in the first place. If you have the right executives on the bus, they will do everything within their power to build a great company, not because of what they will "get" for it, but because they simply cannot imagine settling for anything less. Their moral code requires building excellence for its own sake, and you're no more likely to change that with a compensation package than you're likely to affect whether they breathe. The good-to-great companies understood a simple truth: The right people will do the right things and deliver the best results they're capable of, regardless of the incentive system.

> Yes, compensation and incentives are important, but for very different reasons in good-to-great companies. The purpose of a compensation system should not be to get the right *behaviors* from the wrong people, but to get the right *people* on the bus in the first place, and to keep them there.

We were not able to look as rigorously at nonexecutive compensation; such data is not available in as systematic a format as proxy statements for top officers. Nonetheless, evidence from source documents and articles suggests that the same idea applies at all levels of an organization.[27]

A particularly vivid example is Nucor. Nucor built its entire system on the idea that you can teach farmers how to make steel, but you can't teach a farmer work ethic to people who don't have it in the first place. So, instead of setting up mills in traditional steel towns like Pittsburgh and Gary, it located its plants in places like Crawfordsville, Indiana; Norfolk, Nebraska; and Plymouth, Utah—places full of real farmers who go to bed early, rise at dawn, and get right to work without fanfare. "Gotta milk the cows" and "Gonna plow the north forty before noon" translated easily into "Gotta roll some sheet steel" and "Gonna cast forty tons before lunch." Nucor ejected people who did not share this work ethic, generating as high as 50 percent turnover in the first year of a plant, followed by very low turnover as the right people settled in for the long haul.[28]

To attract and keep the best workers, Nucor paid its steelworkers more than any other steel company in the world. But it built its pay system around a high-pressure team-bonus mechanism, with over 50 percent of a