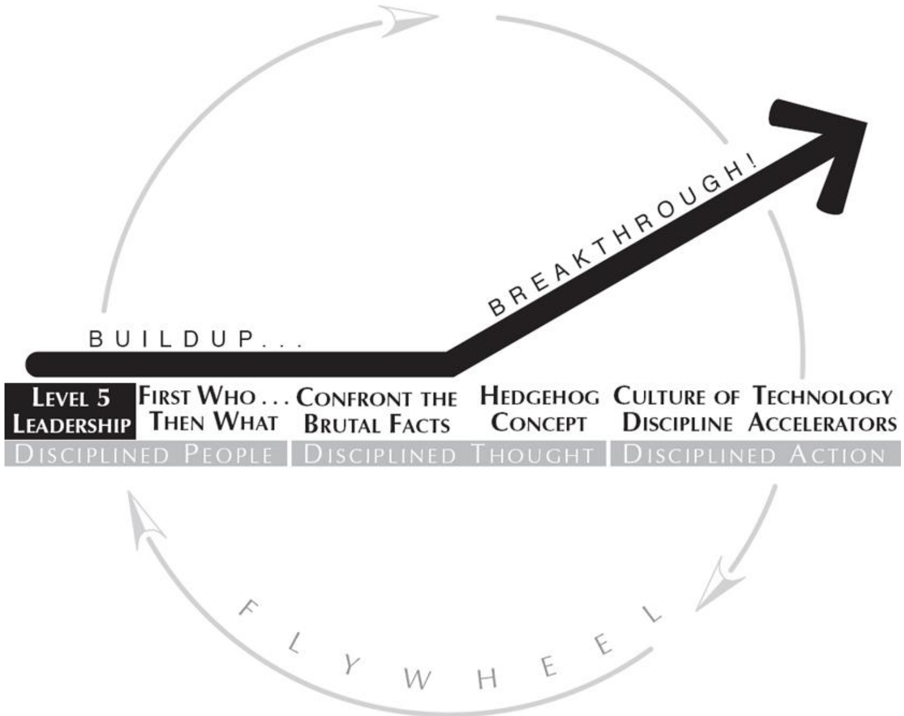
Level 5 Leadership | Chapter Two

Edited extract from Good to Great by Jim Collins



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% behind the general market over the previous 20 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 20 years.

What a 20 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.

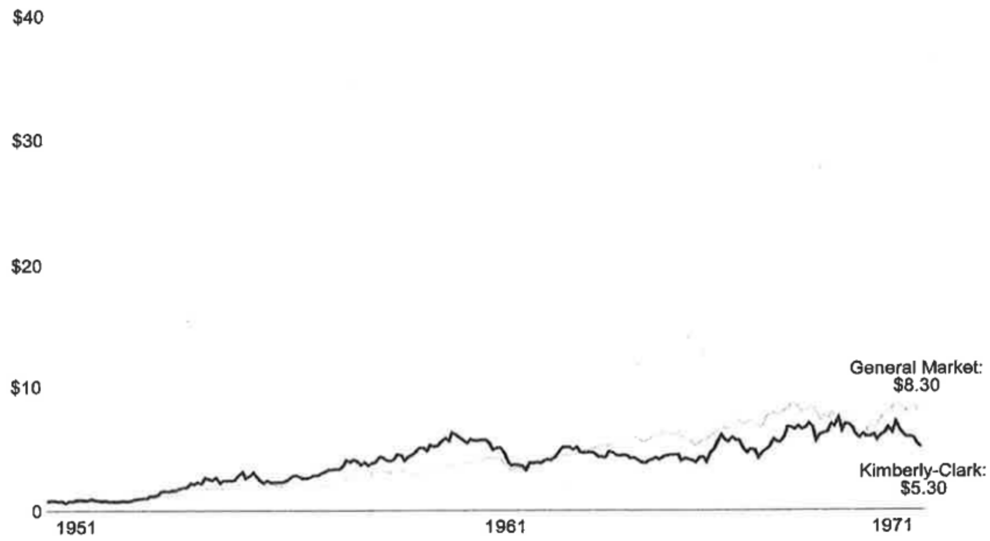
It was an impressive performance, one of the best examples in the 20th century of taking a good company and making it great. Yet few people – even ardent students of management and corporate history – know anything about Darwin Smith. He probably would have liked it that way. A man who carried no airs of self-importance, Smith found his favourite 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 mistaken. His awkward shyness and lack of pretence was coupled with a fierce, 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 25 more years, most of them as CEO.[7]

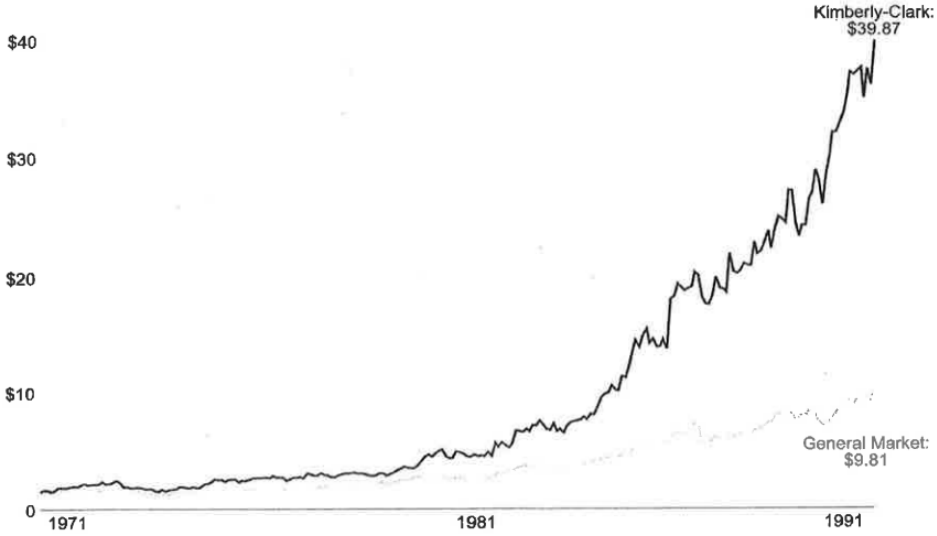
Smith brought that same ferocious resolve to rebuilding Kimberly-Clark, especially when he made the most dramatic decision in the company's history to sell the mills.[8] Shortly after he became CEO, Smith and his team had concluded that the traditional core business – coated paper – was doomed to mediocrity. Its economics were bad and the competition weak.[9] But, they reasoned, if Kimberly-Clark thrust itself into the fire of the consumer paper-products industry, world-class competition like Procter & Gamble would force it to achieve greatness or perish.

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

LEVEL 5 — **LEVEL 5 EXECUTIVE**
Builds enduring greatness through a paradoxical blend of personal humility and professional will.

LEVEL 4 — **EFFECTIVE LEADER**
Catalyzes commitment to and vigorous pursuit of a clear and compelling vision, stimulating higher performance standards.

LEVEL 3 — **COMPETENT MANAGER**
Organizes people and resources toward the effective and efficient pursuit of pre-determined objectives.

LEVEL 2 — **CONTRIBUTING TEAM MEMBER**
Contributes individual capabilities to the achievement of group objectives and works effectively with others in a group setting.

LEVEL 1 — **HIGHLY CAPABLE INDIVIDUAL**
Makes productive contributions through talent, knowledge, skills, and good work habits.

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. 25 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 4). While you don't need to move in sequence from Level I 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 belabour all five levels here, as Levels I 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 saviours 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 wilful, 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% 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% gain on their stock.[17] 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]

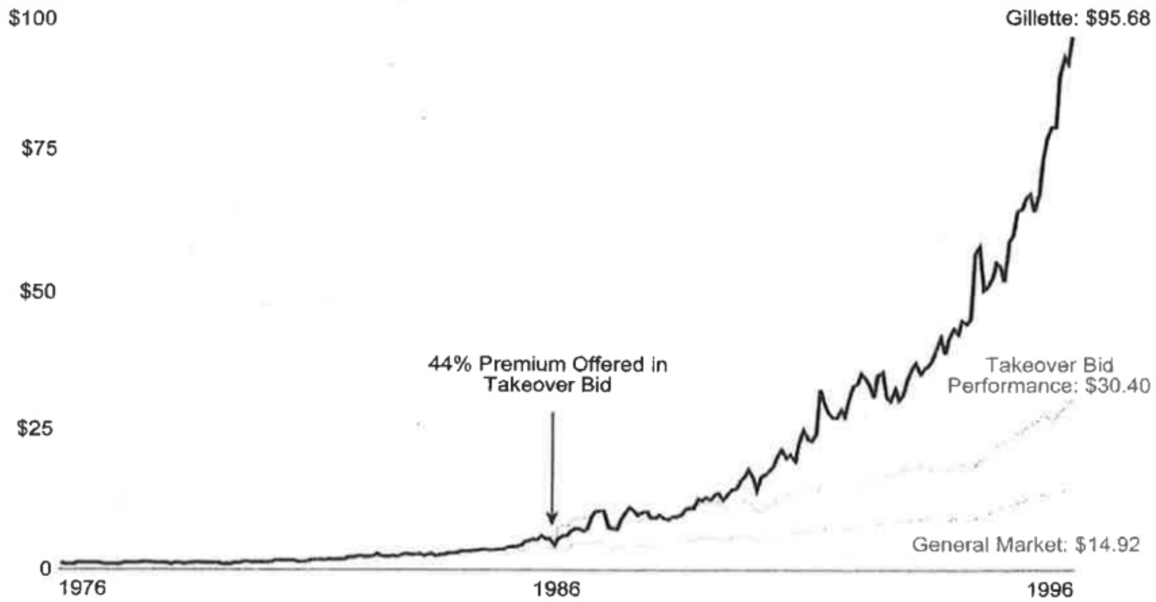
Colman Mockler did not capitulate, choosing instead to fight for the future greatness of Gillette, even though he himself would have pocketed a substantial sum on his own shares. A quiet and reserved man, always courteous, Mockler had the reputation of a gracious, almost patrician gentleman. Yet those 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 Mach 3 – 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, even with the price premium offered by the raiders. To sell out would have made short-term share flippers happy but would have been utterly irresponsible to long-term shareholders.

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.

In the end, Mockler and the board were proved right, stunningly so. If a share flipper had accepted the 44% price premium offered by Ronald Perelman on 31 October 1986, and then invested the full amount in the general market for 10 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 25 January 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 16 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 rivalled 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."

Consider the case of Rubbermaid, an unsustained comparison company that grew from obscurity to number one on Fortune'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 Newell to 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 44 times ("I could lead the charge", "I wrote the twelve objectives", "I presented and explained the objectives"), whereas the word we appears just 16 times.[25] Gault had every reason to be proud of his executive success. Rubbermaid generated 40 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 50 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 marvellous 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 11 good-to-great CEOs are some of the most remarkable CEOs of the century, given that only 11 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 19 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."

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 Research and Development 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 theatre 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 80 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 centre 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 18-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 l, 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% behind Abbott over the next 21 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 saviours 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 11 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 15 times from the end of 1975 to 1 January 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 500 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."

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 (GE) on the day that the legendary Jack Welch took over GE in 1981 and held to 1 January 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."

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. Cullinan 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.[49] 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 85."[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 tuck 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 11 made the very tough cut into our study. In those 11, 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.

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. 10 of 11 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.