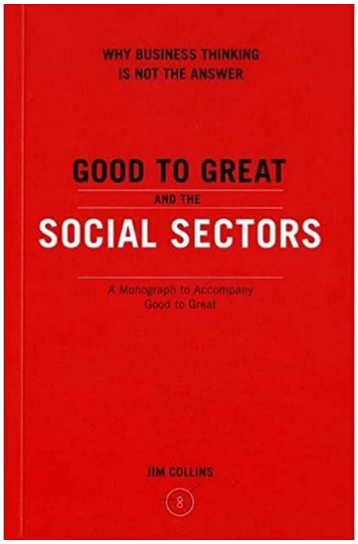
Convene

EXECUTIVE BOOK SUMMARIES

www.convenebooksummary.com



Good to Great and the Social Sectors

THE SUMMARY

Jim Collins 2005

ABOUT THE AUTHOR

Jim Collins

Jim Collins began his research and teaching career on the faculty of Stanford's Graduate School of Business. In 1996, he founded his management laboratory, where he conducts research and works with leaders in the corporate and social sectors.

Why Business Thinking is Not the Answer

We must reject the idea—well-intentioned, but dead wrong—that the primary path to greatness in the social sectors is to become "more like a business." Most businesses—like most of anything else in life—fall somewhere between mediocre and good. Few are great. When you compare great companies with good ones, many widely practiced business norms turn out to correlate with mediocrity, not greatness. So, then, why would we want to import the practices of mediocrity into the social sectors?

We need a new language. The critical distinction is not between business and social, but between great and good. We need to reject the naive imposition of the "language of business" on the social sectors, and instead jointly embrace a language of greatness.

That's what our work is about: building a framework of greatness, articulating timeless principles that explain why some become great and others do not. We derived these principles from a rigorous matched-pair research method, comparing companies that became great with companies that did not. Our work is not fundamentally about business: it is about what separates great from good.

Social sector leaders have embraced this distinction—the principles of greatness, as distinct from the practices of business—with remarkable ease. If a

Published by Study Leadership, Inc. 1N010 Prairie Path Lane, Winfield, IL 60190

Good to Great and the Social Sectors

non-business reader is just as likely to email me as a business reader, then somewhere between 30% and 50% of those who have read *Good to Great* come from non-business. We've received thousands of calls, letters, emails and invitations from education, healthcare, churches, the arts, social services, cause-driven nonprofits, police, government agencies, and even military units.

Two messages leap out. First, the good-to-great principles do indeed apply to the social sectors, perhaps even better than we expected. Second, particular questions crop up repeatedly from social sector leaders facing realities they perceive to be quite different from the business sector. I've synthesized these questions into five issues that form the framework of this piece:

1. Defining "Great"—Calibrating Success without Business Metrics.
2. Level 5 Leadership—Getting Things Done within a Diffuse Power Structure.
3. First Who—Getting the Right People on the Bus within Social Sector Constraints.
4. The Hedgehog Concept—Rethinking the Economic Engine without a Profit Motive.
5. Turning the Flywheel—Building Momentum by Building on the Brand.

Issue One: Defining "Great" - Calibrating Success Without Business Metrics

The distinction between inputs and outputs is fundamental, yet frequently missed. I recently opened the pages of a business magazine that rated charities based in part on the percentage of budget spent on management, overhead and fundraising. It's a well-intentioned idea, but reflects profound confusion between inputs and outputs.

Think about it this way: If you rank collegiate athletic departments based on coaching salaries, you'd find that Stanford University has a higher coaching cost structure as a percentage of total expenses than some other Division I schools. Should we therefore rank Stanford as "less great"? Following the logic of the business magazine, that's what we might conclude—and our conclusion would be absurd. Stanford won the National Association of Collegiate Directors of Athletics Cup for best overall performance for 10 consecutive years, beating out all other major schools, while delivering athlete graduation rates above 80%. To say, "Stanford is a less great program because it has a higher salary structure than some other schools" would miss the main point that Stanford Athletics delivered exceptional performance, defined by the bottom-line outputs of athletic and academic achievement.

A great organization is one that delivers superior performance and makes a distinctive impact over a long period of time. For a business, financial returns are a perfectly legitimate measure of performance. For a social sector organization, however, performance must be assessed relative to mission, not financial returns. In the social sectors, the critical question is not "How much money do we make per dollar of invested capital?" but "How effectively do we deliver on our mission and make a distinctive impact, relative to our resources?"

Now, you might be thinking, "OK, but collegiate sports programs have one giant advantage: you can measure win records and graduations rates. What if your outputs are inherently not measurable?" The basic idea is still the same: separate inputs from outputs, and hold yourself accountable for progress in outputs, even if those outputs defy measurement.

Good to Great and the Social Sectors

It doesn't really matter whether you can quantify your results. What matters is that you rigorously assemble evidence—quantitative or qualitative—to track your progress. If the evidence is primarily qualitative, think like a trial lawyer assembling the combined body of evidence. If the evidence is primarily quantitative, then think of yourself as a laboratory scientist assembling and assessing the data.

To throw our hands up and say, "But we cannot measure performance in the social sectors the way you can in a business" is simply lack of discipline. All indicators are flawed, whether qualitative or quantitative. Test scores are flawed, mammograms are flawed, crime data are flawed, customer service data are flawed, patient-outcome data are flawed. What matters is not finding the perfect indicator, but settling upon a consistent and intelligent method of assessing your output results, and then tracking your trajectory with rigor. What do you mean by great performance? Have you established a baseline? Are you improving? If not, why not? How can you improve even faster toward your audacious goals?

You can think of the entire good-to-great framework as a generic set of input variables that correlate strongly with creating the outputs of greatness. Any journey from good to great requires relentlessly adhering to these input variables, rigorously tracking your trajectory on the output variables, and then driving yourself to even higher levels of performance and impact. No matter how much you have achieved, you will always be merely good relative to what you can become. Greatness is an inherently dynamic process, not an end point. The moment you think of yourself as great, your slide toward mediocrity will have already begun.

Issue Two: Level 5 Leadership - Getting Things Done Within a Diffuse Power Structure.

Social sector leaders are not less decisive than business leaders as a general rule; they only appear that way to those who fail to grasp the complex governance and diffuse power structures common to social sectors. This is why some business executives fail when they move into the social sectors.

One corporate CEO turned academic dean tried to lead faculty toward his vision. The more he brought to bear his executive skill, the more the faculty decided they had better things to do than to attend the dean's faculty meetings. After all, what was he going to do? Fire them? They all had tenure. After "one of the most draining experiences in my life," this CEO returned to the business world. He did not understand—until it was too late—what one university president called the reality of tenured faculty: "A thousand points of no."

The complex governance and diffuse power structures common in non-business lead me to hypothesize that there are two types of leadership skill: executive and legislative. In executive leadership, the individual leader has enough concentrated power to simply make the right decisions. In legislative leadership, on the other hand, no individual leader—not even the nominal chief executive—has enough structural power to make the most important decisions by himself or herself. Legislative leadership relies more upon persuasion, political currency, and shared interests to create the conditions for the right decisions to happen. And it is precisely this legislative dynamic that makes Level 5 leadership particularly important to the social sectors.

Our good-to-great research uncovered that leadership capabilities follow a five-level hierarchy, with Level 5 at the top. Level 5 leaders differ from Level 4 leaders in that they are ambitious first and foremost for the cause, the movement, the mission, the work—not themselves—and they have the will to do whatever it takes to make good on that ambition.

Good to Great and the Social Sectors

In the social sectors, the Level 5's compelling combination of personal humility and professional will is a key factor in creating legitimacy and influence. After all, why should those over whom you have no direct power give themselves over to a decision that is primarily about you? As one social sector leader confided, "I've learned that Level 5 leadership requires being clever for the greater good. In the end, it is my responsibility to ensure that the right decisions happen—even if I don't have the sole power to make those decisions, and even if those decisions could not win a popular vote. The only way I can achieve that is if people know that I'm motivated first and always for the greatness of our work, not myself."

Level 5 leadership is not about being "soft" or "nice" or purely "inclusive" or "consensus-building." The whole point of Level 5 is to make sure the right decisions happen—no matter how difficult or painful—for the long-term greatness of the institution and the achievement of its mission, independent of consensus or popularity.

The executive versus legislative distinction remains a working hypothesis, awaiting rigorous research. If empirical evidence validates the distinction, it is unlikely to be as simple as "business sector = executive" and "social sectors = legislative." More likely, there will be a spectrum, and the most effective leaders will show a blend of both executive and legislative skills. The best leaders of the future—in the social sectors and business—will not be purely executive or legislative; they will have a knack for knowing when to play their executive chips, and when not to.

There is an irony in all this. Social sector organizations increasingly look to business for leadership models and talent, yet I suspect we will find more true leadership in the social sectors than the business sector. How can I say that? Because, as James MacGregor Burns taught in his classic 1978 text, *Leadership*, the practice of leadership is not the same as the exercise of power. If I put a loaded gun to your head, I can get you to do things you might not otherwise do, but I've not practiced leadership; I've exercised power.

True leadership only exists if people follow when they have the freedom not to. If people follow you because they have no choice, then you are not leading. Today's business leaders face highly mobile knowledge workers. They face the Sarbanes-Oxley Act, environmental and consumer groups, and shareholder activists. In short, business executives don't have the same concentration of pure executive power they once enjoyed. Level 5 leadership combined with legislative skill will become even more important to the next generation of business executives, and they would do well to learn from the social sectors. Indeed, perhaps tomorrow's great business leaders will come from the social sectors, not the other way around.

Issues Three: First Who - Getting the Right People on the Bus, Within Social Sector Constraints

In the social sectors, where getting the wrong people off the bus can be more difficult than in a business, early assessment mechanisms turn out to be more important than hiring mechanisms. There is no perfect interviewing technique, no ideal hiring method; even the best executives make hiring mistakes. You can only know for certain about person by working with that person.

Business executives can more easily fire people and—equally important—they can use money to buy talent. Most social sector leaders, on the other hand, must rely on people underpaid relative to the private sector or, in the case of volunteers, paid not at all. Yet a finding from our research is instructive: the key variable is not how (or how much) you pay, but who you have on the bus.

Good to Great and the Social Sectors

The comparison companies in our research—those that failed to become great—placed greater emphasis on using incentives to "motivate" otherwise unmotivated or undisciplined people. The great companies, in contrast, focused on getting and hanging on to the right people in the first place—those who are productively neurotic, those who are self-motivated and self-disciplined, those who wake up every day, compulsively driven to do the best they can because it is simply part of their DNA. In the social sectors, when big incentives (or compensation at all, in the case of volunteers) are simply not possible, the First Who principle becomes even more important. Lack of resources is no excuse for lack of rigor—it makes selectivity all the more vital.

There are three fundamental points in the selectivity process. First, the more selective the process, the more attractive a position becomes - even if volunteer or low pay. Second, the social sectors have one compelling advantage: desperate craving for meaning in our lives. Purity of mission—be it about educating young people, connecting people to God, making our cities safe, touching the soul with great art, feeding the hungry, serving the poor, or protecting our freedom—has the power to ignite passion and commitment. Third, the number-one resource for a great social sector organization is having enough of the right people willing to commit themselves to mission. The right people can often attract money, but money by itself can never attract the right people. Money is a commodity; talent is not. Time and talent can often compensate for lack of money, but money cannot ever compensate for lack of the right people.

Issue Four: The Hedgehog Concept - Rethinking the Economic Engine Without a Profit Motive

The pivot point in *Good to Great* is the Hedgehog Concept. The essence of a Hedgehog Concept is to attain piercing clarity about how to produce the best long-term results, and then exercising the relentless discipline to say, "No thank you" to opportunities that fail the hedgehog test. When we examined the Hedgehog Concepts of the good-to-great companies, we found they reflected deep understanding of three intersecting circles: 1) what you are deeply passionate about, 2) what you can be the best in the world at, and 3) what best drives your economic engine.

Social sector leaders found the Hedgehog Concept helpful, but many rebelled against the third circle, the economic engine. I found this puzzling. Sure, making money is not the point, but you still need to have an economic engine to fulfill your mission.

Then I had a conversation with John Morgan, a pastor with more than 30 years of experience in congregational work, then serving as a minister of a church in Reading, Pennsylvania. "We're a congregation of misfits," said Morgan, "and I found the idea of a unifying Hedgehog Concept to be very helpful. We're passionate about trying to rebuild this community, and we can be the best in our region at creating a generation of transformational leaders that reflects the full diversity of the community. That is our Hedgehog Concept."

And what about the economic engine?

"Oh, we had to change that circle," he said. "It just doesn't make sense in a church."

"How can it not make sense," I pressed. "Don't you need to fund your work?"

"Well, there are two problems. First, we face a cultural problem of talking about money in a religious setting, coming from a tradition that says love of money is the root of all evil."

"But money is also the root of paying the light and phone bills," I said.

Good to Great and the Social Sectors

"True" said Morgan, "but you've got to keep in mind the deep discomfort of talking explicitly about money in some church settings. And second, we rely upon much more than money to keep this place going. How do we get enough resources of all types—not just money to pay the bills, but also time, emotional commitment, hands, hearts, and minds?"

Morgan put his finger on a fundamental difference between the business and social sectors. The third circle of the Hedgehog Concept shifts from being an economic engine to a resource engine. The critical question is not "How much money do we make?" but "How can we develop a sustainable resource engine to deliver superior performance relative to our mission?"

In *Good to Great*, we uncovered the idea of the "economic denominator." If you could pick only one ratio—profit per x—to systematically increase over time, what "x" would have the most significant impact on your economic engine? This economic ratio ties perfectly to the economic core in all businesses, namely the profit mechanism, translated into return on invested capital.

The same idea does not translate to the social sectors. For one thing, as Tom Tierney of The Bridgespan Group aptly observed, the social sectors do not have rational capital markets that channel resources to those who deliver the best results. For another, there is no one underlying economic driver—the analogy to profit per "x"—that applies across all social sector organizations. The whole purpose of the social sectors is to meet social objectives, human needs and national priorities that cannot be priced at a profit.

Yet the wide variation in economic structures in the social sectors increases the importance of the hedgehog principle—the inherent complexity requires deeper, more penetrating insight and rigorous clarity than in your average business entity. You begin with passion, then you refine passion with a rigorous assessment of what you can best contribute to the communities you touch. Then you create a way to tie your resource engine directly to the other two circles.

The critical step in the Hedgehog Concept is to determine how best to connect all three circles, so that they reinforce each other. You must be able to answer the question, "How does focusing on what we can do best tie directly to our resource engine, and how does our engine directly reinforce what we can do best?" And you must be right.

A great social sector organization must have the discipline to say, "No thank you" to resources that drive it away from the middle of its three circles. Those who have the discipline to attract and channel resources directed solely at their Hedgehog Concept, and to reject resources that drive them away from the center of their three circles, will be of greater service to the world.

Issue Five: Turning the Flywheel - Building Momentum by Building the Brand

In building a great institution, there is no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, our research showed that it feels like turning a giant, heavy flywheel. Pushing with great effort—days, weeks and months of work, with almost imperceptible progress—you finally get the flywheel to inch forward. But you don't stop. You keep pushing, and with persistent effort, you eventually get the flywheel to complete one entire turn. You don't stop. You keep pushing, in an intelligent and consistent direction, and the flywheel moves a bit faster. You keep pushing, and you get two turns ... then four ... then eight ... the flywheel builds momentum ... sixteen ... you keep pushing ... thirty-two ... it builds more momentum ... a hundred ... moving faster with each turn ... a thousand ... ten thousand ... a hundred thousand. Then, at some point—breakthrough! Each turn builds upon previous work, compounding your investment of effort. The flywheel flies forward with almost unstoppable momentum. This is how you build greatness.

By focusing on your Hedgehog Concept, you build results. Those results, in turn, attract resources and commitment, which you use to build a strong organization. That strong organization then delivers even better results, which attracts greater resources and commitment, which builds a stronger organization, which enables even better results. People want to feel the excitement of being involved in something that just flat out works. When they begin to see tangible results—when they can feel the flywheel beginning to build speed—that's when most people line up to throw their shoulders against the wheel and push.

This is the power of the flywheel. Success breeds support and commitment, which breeds even greater success, which breeds more support and commitment—round and around the flywheel goes. People like to support winners!

In the business sector, the flywheel works exceptionally well. Deliver superior financial results, and the world will line up, eager to give you capital. In the social sectors, by contrast, there is no guaranteed relationship between exceptional results and sustained access to resources. In fact, the exact opposite can happen. As Clara Miller shows in her superb article, "Hidden in Plain Sight" (*Nonprofit Quarterly*, Spring 2003), nonprofit funding tends to favor programmatic funding, not building great organizations: "If you have a surplus, why should I give you a grant?" Small nonprofits face a valley of the shadow of death in making the shift from programmatic funding to sustained unrestricted funding, and many fail along the way.

Yet despite the differences between business and social sector economics, those who lead institutions from good to great must harness the flywheel effect. Whereas in business, the key driver in the flywheel is the link between financial success and capital resources, I'd like to suggest that a key link in the social sectors is brand reputation—built upon tangible results and emotional share of heart—so that potential supporters believe not only in your mission, but in your capacity to deliver on that mission.

Is the American Cancer Society the best mechanism for conquering cancer, or the Nature Conservancy the most effective at protecting the environment? Perhaps, but their brand reputations give people an easy way to support a cause they care about. The same applies to government-funded entities. NYPD has a brand. The United States Marine Corps has a brand. NASA has a brand. Anyone seeking to cut funding must contend with the brand.

Social sector leaders pride themselves on "doing good" for the world, but to be of maximum service requires a ferocious focus on doing good only if it fits with your Hedgehog Concept. To do the most good requires saying "no" to pressures to stray, and the discipline to stop doing what does not fit.

Build a Pocket of Greatness

Both business leaders and social sector leaders face difficulties and constraints, but on net, I conclude that the relative advantages and disadvantages more or less cancel each other out. Great business corporations share more in common with great social sector organizations than they share with mediocre businesses. And the same holds in reverse. Again, the key question is not business versus social, but great versus good.

Good to Great and the Social Sectors

I do not mean to discount the systemic factors facing the social sectors. They are significant, and they must be addressed. Still, the fact remains, we can find pockets of greatness in nearly every difficult environment—whether it be the airline industry, education, healthcare, social ventures, or government-funded agencies. Every institution has its unique set of irrational and difficult constraints, yet some make a leap while others facing the same environmental challenges do not. This is perhaps the single most important point in all of *Good to Great*. Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline.