From *Good to Great* – or is that the case?

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The book *Good to Great: Why Some Companies Make the Leap ... and Others Don't* (Harper Business, 2001) is intriguing as well as important.[1] First of all, unlike so much research in the field of management, there is a genuine attempt here to produce a scientifically verifiable study, with a significant investment in terms of time and people.[2]

In a previous book, *Built to Last*, Collins looked at how great companies maintained their greatness. *Good to Great*, however, explores how companies can transform themselves from being good companies, meaning ones that make a decent return on investment given the industry that they are in, into great companies, that is, ones that far outperform the average in their market and that can maintain that performance for at least 15 years after the transformation takes place. Only 11 companies out of nearly 1500 from the USA Fortune 500 lists between 1965 and 1995 passed this test.[3]

Why look at this book in the editorial of *OIKONOMIA*? Publicly quoted companies are enormously influential institutions in our society, so an editorial that looks at a book that tries to identify "great" companies is well within the ambit of the editorials of *OIKONOMIA*. Secondly, however, some of the findings of this book are not what those trained in business schools might have expected and are instead rather interesting from an ethical point of view.

Two of the findings merit discussion here. Firstly, Collins describes how the research team tried to avoid looking for a particular type of leader in companies that made the breakthrough to great performance. They were convinced that too much is usually made of leaders, and they wanted to resist being influenced by the kind of cult of leadership that can often be found in management literature. Instead, however, the more they looked at their data, the more they found a most intriguing finding regarding the type of leader an organization needs in order to make a breakthrough in performance. After trying to work out how to present this figure they came up with the idea of a "Level 5 Leader", that is, a person who has gone beyond the first four levels of good performance they characterise, in order to become a really effective leader.

Level 5 leaders "are a study in duality: modest and wilful, humble and fearless" (p.22). None of them are well-known names like Lee Iacocca (Chrysler) or Jack Welch (GE), but, if anything, shun the limelight. Collins says that one of their "key traits" is: "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" (pp. 25 – 26). When interviewed, these leaders only use the word "I" when taking responsibility for mistakes made, otherwise they always spoke about "we" and attributed success to others or, if they could not attribute it to anyone in particular, they attributed it to luck. In the comparison companies (those that did not make or did not maintain breakthrough improvement), however, there are lots of examples of "the presence of a gargantuan personal ego that contributed to the demise or continued mediocrity of the company" (p.29).

Thus, one of the crucial factors in the lasting success of these 11 "great" companies was a leader who was highly determined to achieve the best for the business he lead but humble and aware of his own limitations. From this study it emerges that the great leader is thus concerned for the common good of the business, seeing his own good as intimately linked to that, instead of seeing the business as an instrument through which to realise his own ambitions and boost his ego. These characteristics bear much (if partial) similarity to those we could ascribe to the "virtuous manager". This latter person has grown in the knowledge of good ends with regard to business and of effective means for achieving these ends and who recognises that the common good is the basis for virtuous life in society. This is really a very striking finding and compounds in a positive way what we have learnt through the negative experiences of Enron, Worldcom and other spectacular financial crashes. A complementary finding is that 10 out of the 11 leaders whose companies achieved such spectacular performance were not brought in from outside, as so often happens in publicly traded companies, but were promoted from within and knew the specifics of the company and its market from long experience before taking over the reins. This also confirms the idea that great leaders have had to grow and learn how to deal well with the situation facing them through long experience.

The second finding of the book is more difficult to fit into the virtue/ common good scheme. Here, Collins argues that the good-to-great leaders did not set a direction or strategy for the business and then try to assemble a team to carry it out. The first thing they did was to get good people into the management team and then to let them work out together where to take the company. In the words of Collins, they followed a strategy of "first who, then what", which involved getting "the right people on the bus, in the right seats" and the "wrong people off the bus" (p. 41). In the comparison companies, with their big name leaders, there was instead a "genius and a thousand helpers" model for the way they picked their management team, where the "genius" set the direction and all the others had to run around afterwards trying to carry it out (pp. 45 – 46).

This affirmation seems to go somewhat against the first point. In the first chapter, Collins recognises that leaders develop through working their way up the company, whereas in the second chapter, these same leaders, when they get to the top, cut out people who are not "up to scratch", in other words, "wrong". In this second case, Collins does not indicate that any of these companies tried to convince, develop or form the "right" people. People are either "right" or they are "wrong" and you have to get the wrong ones out of the company (or "off the bus" as he says) if you are going to get great performance. Collins tries to defend this kind of policy by saying the following:

> The good-to-great companies probably sound like tough places to work – and they are. If you don't have what it takes, you probably won't last long. But they're not ruthless cultures, they're rigorous cultures. And the distinction is crucial.
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> To be ruthless means hacking and cutting, especially in difficult times, or wantonly firing people without any thoughtful consideration. To be rigorous means consistently applying exacting standards at all times and at all levels, especially in upper management. To be rigorous, not ruthless, means that the best people need not worry about their positions and can concentrate fully on their work." (p. 52).

Perhaps this kind of finding works well at the level of a particular business, but what would it mean for the whole of society if such a principle were always followed? On the one hand, being effective in your job is always good, but not everyone is going to be as effective as we would like, and certainly not all of the time. The idea of being disciplined, of even a kind of an asceticism for the sake of the common good of the firm, is laudable, as well as the idea of being tougher with the executives than with the rank and file (a very good principle which is, sadly, hardly ever followed). But this needs to be balanced against what we also know to be true: that people can be encouraged to develop, change and grow. They can undergo a process of gradual transformation (indeed, one of the "great companies" did indeed do this, Wells Fargo, gradually changing its management team over a 15 year period, but when it took over another bank, Crocker, it sacked the "wrong" people immediately. See pp. 42 – 44 and 52 – 54). Although *Good to Great* is a very important study, therefore, it still leaves us with many unanswered questions.

Notes

[1] The book is reviewed in Italian in this number of *OIKONOMIA.*

[2] Over 20 people worked on the project, usually in groups of 4 – 6 at a time, putting in about 15,000 hours of work altogether over the five years of the project.

[3] These companies were the focus of the study because there is more information in the public domain about them, thus giving the study a more rigorous basis than would be possible with other types of company. Although the researchers toyed with the idea of including other variables in the definition of "great", they decided against this since "we could not conceive of any legitimate and consistent method for selecting on these other variables without introducing our own biases" (p. 6).