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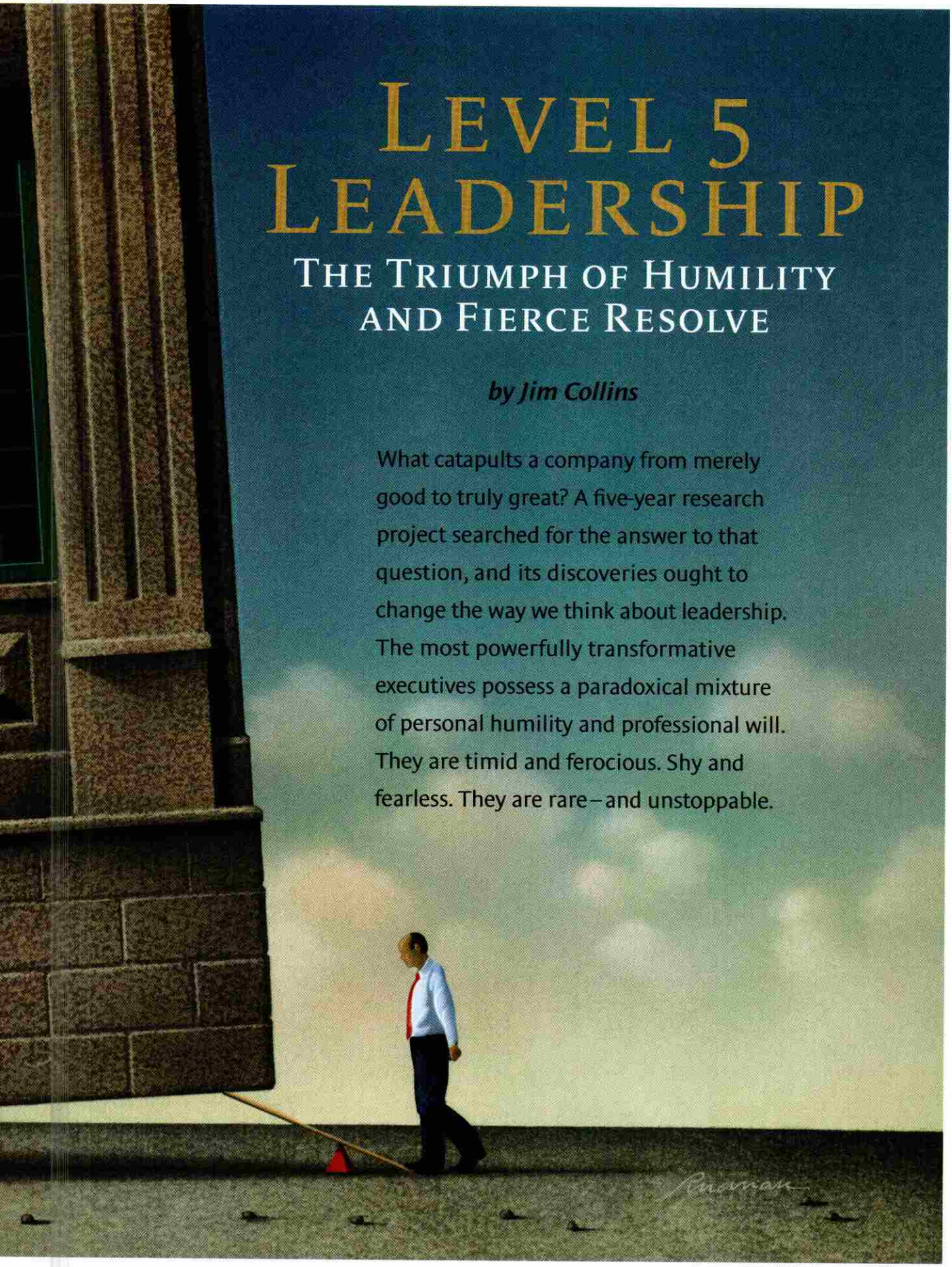

LEVEL 5 LEADERSHIP

THE TRIUMPH OF HUMILITY AND FIERCE RESOLVE

by Jim Collins

What catapults a company from merely good to truly great? A five-year research project searched for the answer to that question, and its discoveries ought to change the way we think about leadership. The most powerfully transformative executives possess a paradoxical mixture of personal humility and professional will. They are timid and ferocious. Shy and fearless. They are rare—and unstoppable.

In 1971, a seemingly ordinary man named Darwin E. Smith was named chief executive of Kimberly-Clark, a stodgy old paper company whose stock had fallen 36% behind the general market during 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 that was reinforced when a Kimberly-Clark director pulled him aside and reminded him that he lacked some of the qualifications for the position. 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 at Kimberly-Clark, turning it into the leading consumer paper products company in the world. Under his stewardship, the company beat its rivals Scott Paper and Procter & Gamble. And in doing so, Kimberly-Clark generated cumulative stock returns that were 4.1 times greater than those of the general market, outperforming venerable companies such as Hewlett-Packard, 3M, Coca-Cola, and General Electric.

GOOD-TO-GREAT TRANSFORMATIONS DON'T HAPPEN WITHOUT LEVEL 5 LEADERS AT THE HELM. THEY JUST DON'T.

Smith's turnaround of Kimberly-Clark is one the best examples in the twentieth century of a leader taking a company from merely good to truly great. And yet few people – even ardent students of business history – have heard of Darwin Smith. He probably would have liked it that way. Smith is a classic example of a *Level 5 leader* – an individual who blends extreme personal humility with intense professional will. According to our five-year research study, executives who possess this paradoxical combination of traits are catalysts for the statistically rare event of transforming a good company into a great one. (The research is described in the sidebar "One Question, Five Years, Eleven Companies.")

"Level 5" refers to the highest level in a hierarchy of executive capabilities that we identified during our research. Leaders at the other four levels in the hierarchy can produce high degrees of success but not enough to elevate companies from mediocrity to sustained excellence. (For more details about this concept, see the exhibit "The Level 5 Hierarchy.") And while Level 5 leadership is not the only requirement for transforming a good company into a great one – other factors include getting the right people on the bus (and the wrong people off the bus) and creating a culture of discipline – our research shows it to be essential. Good-to-great transformations don't happen without Level 5 leaders at the helm. They just don't.

Not What You Would Expect

Our discovery of Level 5 leadership is counterintuitive. Indeed, it is countercultural. People generally assume that transforming companies from good to great requires larger-than-life leaders – big personalities like Iacocca, Dunlap, Welch, and Gault, who make headlines and become celebrities.

Compared with those CEOs, Darwin Smith seems to have come from Mars. Shy, unpretentious, even awkward, Smith shunned attention. When a journalist asked him to describe his management style, Smith just stared back at the scribe from the other side of his thick black-rimmed glasses. He was dressed unfashionably, like a farm boy wearing his first J.C. Penney suit. Finally, after a long and uncomfortable silence, he said, "Eccentric." Needless to say, the *Wall Street Journal* did not publish a splashy feature on Darwin Smith.

But if you were to consider Smith soft or meek, you would be terribly mistaken. His lack of pretense was coupled with a fierce, even stoic, resolve toward life. Smith grew up on an Indiana farm and put himself through night school at Indiana University by working the day shift at International Harvester. One day, he lost a finger on the job. The story goes that he went to class that evening and returned to work the very next day. Eventually, this poor but determined Indiana farm boy earned admission to Harvard Law School.

He showed the same iron will when he was at the helm of Kimberly-Clark. Indeed, two months after Smith became CEO, doctors diagnosed him with nose and throat cancer and told him he had less than a year to live. He duly informed the board of his illness but said he had no plans to die anytime soon. Smith held to his demanding work schedule while commuting weekly from Wisconsin to Houston for radiation therapy. He lived 25 more years, 20 of them as CEO.

Smith's ferocious resolve was crucial to the rebuilding of Kimberly-Clark, especially when he made the most dramatic decision in the company's history: sell the mills.

To explain: shortly after he took over, Smith and his team had concluded that the company's traditional core business – coated paper – was doomed to mediocrity. Its economics were bad and the competition weak. But, they reasoned, if Kimberly-Clark was thrust into the fire of the *consumer* paper products business, better economics and

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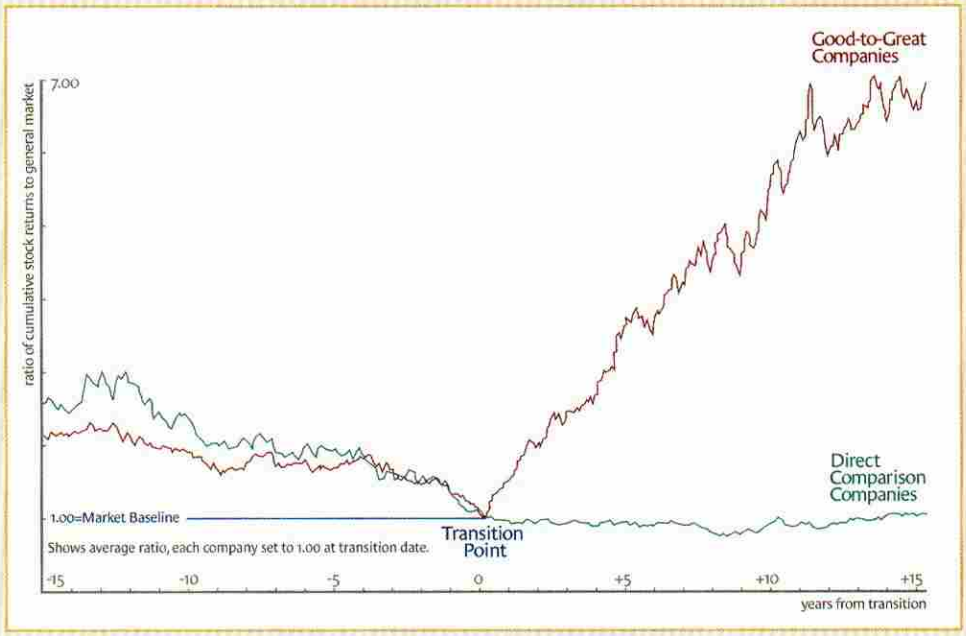
One Question, Five Years, Eleven Companies

The Level 5 discovery derives from a research project that began in 1996, when my research teams and I set out to answer one question: can a good company become a great company and, if so, how? Most great companies grew up with superb parents – people like George Merck, David Packard, and Walt Disney – who instilled greatness 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?



To answer that question, we looked for companies that had shifted from good performance to great performance – and sustained it. We identified comparison companies that had failed to make that sustained shift. We then studied the contrast between the two groups to discover common variables that distinguish those who make and sustain a shift from those who could have but didn't.

More precisely, we searched for a specific pattern: cumulative stock returns at or below the general stock market for 15 years, punctuated by a transition point, then cumulative returns at least three times the market over the next 15 years. (See the exhibit above.) We used data from the University of Chicago Center for Research in Security Prices, adjusted for stock splits, and all dividends reinvested. The shift had to be distinct from the industry; if the whole industry showed the same shift, we'd drop the company. We began with 1,435 companies that appeared on the *Fortune* 500 from 1965 to 1995; we found 11 good-to-great examples. That's not a sample; that's the total number that jumped all our hurdles and passed into the study.

Those that made the cut averaged cumulative stock returns 6.9 times the general stock market for the 15 years after the point of transition. To put that in perspective, General Electric under Jack Welch outperformed the general stock market by 2.8:1 during his tenure from 1986 to 2000. A dollar invested in a mutual fund of the good-to-great companies in 1965 grew to $470 by 2000 – compared to $56 in the general stock market. These are remarkable numbers, made all the more so by the fact that they came from previously unremarkable companies.

For each good-to-great example, we selected the best direct comparison, based on similarity of business, size, age, customers, and performance leading up to the transition. We also constructed a set of six "unsustained" comparisons (companies that showed a short-lived shift but then fell off) to address the question of sustainability. To be conservative, we consistently picked comparison companies that, if anything, were in better shape than the good-to-great companies were in the years just before the transition.

With 22 research associates working in groups of four to six at a time from 1996 to 2000, our study involved a wide range of both qualitative and quantitative analyses. On the qualitative front, we collected nearly 6,000 articles, conducted 87 interviews with key executives, analyzed companies' internal strategy documents, and culled through analysts' reports. On the quantitative front, we ran financial metrics, examined executive compensation, compared patterns of management turnover, quantified company layoffs and restructurings, and calculated the effect of acquisitions and divestitures on companies' stocks. We then synthesized the results to identify the drivers of good-to-great transformations. One was Level 5 leadership. (The others are described in the sidebar "Not by Level 5 Alone.")

Since only 11 companies qualified as good-to-great, a research finding had to meet a stiff standard before we would deem it significant. Every component in the final framework showed up in all 11 good-to-great companies during the transition era, regardless of industry (from steel to banking), transition decade (from the 1950s to the 1990s), circumstances (from plodding along to dire crisis), or size (from tens of millions to tens of billions). Additionally, every component had to show up in less than 30% of the comparison companies during the relevant years. Level 5 easily made it into the framework as one of the strongest, most consistent contrasts between the good-to-great and the comparison companies.

world-class competition like Procter & Gamble would force it to achieve greatness or perish.

And so, like the general who burned the boats upon landing on enemy soil, leaving his troops to succeed or die, Smith announced that Kimberly-Clark would sell its mills–even the namesake mill in Kimberly, Wisconsin. All proceeds would be thrown into the consumer business, with investments in brands like Huggies diapers and Kleenex tissues. The business media called the move stupid, and Wall Street analysts downgraded the stock. But Smith never wavered. Twenty-five years later, Kimberly-Clark owned Scott Paper and beat Procter & Gamble in six of eight product categories. In retirement, Smith reflected on his exceptional performance, saying simply, "I never stopped trying to become qualified for the job."

Not What We Expected Either

We'll look in depth at Level 5 leadership, but first let's set an important context for our findings: we were not looking for Level 5 or anything like it. Our original question was can a good company become a great one, and, if so, how? In fact, I gave the research teams explicit instructions to downplay the role of top executives in their analyses of this question so we wouldn't slip into the simplistic "credit the leader" or "blame the leader" thinking that is so common today.

But Level 5 found us. Over the course of the study, research teams kept saying, "We can't ignore the top executives even if we want to. There is something consistently unusual about them." I would push back, arguing, "The comparison companies also had leaders. So what's different here?" Back and forth the debate raged. Finally, as should always be the case, the data won. The executives at companies that went from good to great and sustained that performance for 15 years or more were all cut from the same cloth – one remarkably different from that which produced executives at the comparison companies in our study. It didn't matter whether the company was in crisis or steady state, consumer or industrial, offering services or products. It didn't matter when the transition took place or how big the company. The successful organizations all had a Level 5 leader at the time of transition.

Furthermore, the absence of Level 5 leadership showed up consistently across the comparison companies. The point: Level 5 is an empirical finding, not an ideological one. And that's important to note, given how much the Level 5 finding contradicts not only conventional wisdom but much of management theory to date. (For more about our findings on good-to-great transformations, see the sidebar "Not by Level 5 Alone.")

Humility + Will = Level 5

Level 5 leaders are a study in duality: modest and willful, shy and fearless. To grasp this concept, consider Abraham Lincoln, who never let his ego get in the way of his ambition to create an enduring great nation. Author Henry Adams called him "a quiet, peaceful, shy figure." But those who thought Lincoln's understated manner signaled weakness in the man found themselves terribly mistaken – to the scale of 250,000 Confederate and 360,000 Union lives, including Lincoln's own.

It might be a stretch to compare the 11 Level 5 CEOs in our research to Lincoln, but they did display the same kind of duality. Take Colman M. Mockler, CEO of Gillette

The Level 5 Hierarchy

The Level 5 leader sits on top of a hierarchy of capabilities and is, according to our research, a necessary requirement for transforming an organization from good to great. But what lies beneath? Four other layers, each one appropriate in its own right but none with the power of Level 5. Individuals do not need to proceed sequentially through each level of the hierarchy to reach the top, but to be a full-fledged Level 5 requires the capabilities of all the lower levels, plus the special characteristics of Level 5.

from 1975 to 1991. Mockler, who faced down three takeover attempts, was a reserved, gracious man with a gentle, almost patrician manner. Despite epic battles with raiders–he took on Ronald Perelman twice and the former Coniston Partners once–he never lost his shy, courteous style. At the height of the crisis, he maintained a calm business-as-usual demeanor, dispensing first with ongoing business before turning to the takeover.

And yet, those who mistook Mockler's outward modesty as a sign of inner weakness were beaten in the end. In one proxy battle, Mockler and other senior executives called thousands of investors, one by one, to win their votes. Mockler simply would not give in. He chose to fight for the future greatness of Gillette even though he could have pocketed millions by flipping his stock.

Consider the consequences had Mockler capitulated. If a share-flipper had accepted the full 44% price premium offered by Perelman and then invested those shares in the general market for ten years, he still would have come out 64% behind a shareholder who stayed with Mockler and Gillette. If Mockler had given up the fight, it's likely that none of us would be shaving with Sensor, Lady Sensor, or the Mach III – and hundreds of millions of people would have a more painful battle with daily stubble.

Sadly, Mockler never had the chance to enjoy the full fruits of his efforts. In January 1991, Gillette received an advance copy of *Forbes*. The cover featured an artist's rendition of the publicity-shy Mockler standing on a mountaintop, holding a giant razor above his head in a triumphant pose. Walking back to his office, just minutes after seeing this public acknowledgment of his 16 years of struggle, Mockler crumpled to the floor and died from a massive heart attack.

Even if Mockler had known he would die in office, he could not

Not by Level 5 Alone

Level 5 leadership is an essential factor for taking a company from good to great, but it's not the only one. Our research uncovered multiple factors that deliver companies to greatness. And it is the combined package–Level 5 plus these other drivers–that takes companies beyond unremarkable. There is a symbiotic relationship between Level 5 and the rest of our findings: Level 5 enables implementation of the other findings, and practicing the other findings may help you get to Level 5. We've already talked about who Level 5 leaders are; the rest of our findings describe what they do. Here is a brief look at some of the other key findings.

First Who: We expected that good-to-great leaders would start with the vision and strategy. Instead, they attended to people first, strategy second. They got the right people on the bus, moved the wrong people off, ushered the right people to the right seats–and then they figured out where to drive it.

Stockdale Paradox: This finding is named after Admiral James Stockdale, winner of the Medal of Honor, who survived seven years in a Vietcong POW camp by hanging on to two contradictory beliefs: his life couldn't be worse at the moment, and his life would someday be better than ever. Like Stockdale, people at the good-to-great companies in our research confronted the most brutal facts of their current reality–yet simultaneously maintained absolute faith that they would prevail in the end. And they held both disciplines–faith and facts–at the same time, all the time.

Buildup-Breakthrough Flywheel: Good-to-great transformations do not happen overnight or in one big leap. Rather, the process resembles relentlessly pushing a giant, heavy flywheel in one direction. At first, pushing it gets the flywheel to turn once. With consistent effort, it goes two turns, then five, then ten, building increasing momentum until–bang!–the wheel hits the breakthrough point, and the momentum really kicks in. Our comparison companies never sustained the kind of breakthrough momentum that the good-to-great companies did; instead, they lurched back and forth with radical change programs, reactionary moves, and restructurings.

The Hedgehog Concept: In a famous essay, philosopher and scholar Isaiah Berlin described two approaches to thought and life using a simple parable: The fox knows a little about many things, but the hedgehog knows only one big thing very well. The fox is complex; the hedgehog simple. And the hedgehog wins. Our research shows that breakthroughs require a simple, hedgehog-like understanding of three intersecting circles: what a company can be the best in the world at, how its economics work best, and what best ignites the passions of its people. Breakthroughs happen when you get the hedgehog concept and become systematic and consistent with it, eliminating virtually anything that does not fit in the three circles.

Technology Accelerators: The good-to-great companies had a paradoxical relationship with technology. On the one hand, they assiduously avoided jumping on new technology bandwagons. On the other, they were pioneers in the application of carefully selected technologies, making bold, farsighted investments in those that directly linked to their hedgehog concept. Like turbochargers, these technology accelerators create an explosion in flywheel momentum.

A Culture of Discipline: When you look across the good-to-great transformations, they consistently display three forms of discipline: disciplined people, disciplined thought, and disciplined action. When you have disciplined people, you don't need hierarchy. When you have disciplined thought, you don't need bureaucracy. When you have disciplined action, you don't need excessive controls. When you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance.

have changed his approach. His placid persona hid an inner intensity, a dedication to making anything he touched the best – not just because of what he would get but because he couldn't imagine doing it any other way. Mockler could not give up the company to those who would destroy it, any more than Lincoln would risk losing the chance to build an enduring great nation.

A Compelling Modesty

The Mockler story illustrates the modesty typical of Level 5 leaders. (For a summary of Level 5 traits, see the exhibit "The Yin and Yang of Level 5.") Indeed, throughout our interviews with such executives, we were struck by the way they talked about themselves – or rather, didn't talk about themselves. They'd go on and on about the company and the contributions of other executives, but they would instinctively deflect discussion about their own role. When pressed to talk about themselves, they'd say things like, "I hope I'm not sounding like a big shot," or "I don't think I can take much credit for what happened. We were blessed with marvelous people." One Level 5 leader even asserted, "There are lot of people in this company who could do my job better than I do."

IT'S HARD TO IMAGINE A LEVEL 5 LEADER THINKING, "HEY, THAT RAMBO CHARACTER REMINDS ME OF ME."

By contrast, consider the courtship of personal celebrity by the comparison CEOs. Scott Paper, the comparison company to Kimberly-Clark, hired Al Dunlap as CEO – a man who would tell anyone who would listen (and many who would have preferred not to) about his accomplishments. After 19 months atop Scott Paper, Dunlap said in *BusinessWeek:* "The Scott story will go down in the annals of American business history as one of the most successful, quickest turnarounds ever. It makes other turnarounds pale by comparison." He personally accrued $100 million for 603 days of work at Scott Paper – about $165,000 per day – largely by slashing the workforce, halving the R&D budget, and putting the company on growth steroids in preparation for sale. After selling off the company and pocketing his quick millions, Dunlap wrote an autobiography in which he boastfully dubbed himself "Rambo in pinstripes." It's hard to imagine Darwin Smith thinking, "Hey, that Rambo character reminds me of me," let alone stating it publicly.

Granted, the Scott Paper story is one of the more dramatic in our study, but it's not an isolated case. In more than two-thirds of the comparison companies, we noted the presence of a gargantuan ego that contributed to the demise or continued mediocrity of the company. We found this pattern particularly strong in the unsustained comparison companies – the companies that would show a shift in performance under a talented yet egocentric Level 4 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 U.S. business history. The automaker's stock rose 2.9 times higher than the general market about halfway through his tenure. But then Iacocca diverted his attention to transforming himself. He appeared regularly on talk shows like the *Today Show* and *Larry King Live,* starred in more than 80 commercials, entertained the idea of running for president of the United States, and promoted his autobiography, which sold 7 million copies worldwide. Iacocca's personal stock soared, but Chrysler's stock fell 31% below the market in the second half of his tenure.

And once Iacocca had accumulated all the fame and perks, he found it difficult to leave center stage. He postponed his retirement so many times that Chrysler's insiders began to joke that Iacocca stood for "I Am Chairman of Chrysler Corporation Always." When he finally retired, he demanded that the board continue to provide a private jet and stock options. Later, he joined forces with noted takeover artist Kirk Kerkorian to launch a hostile bid for Chrysler. (It failed.) Iacocca did make one final brilliant decision: he picked a modest yet determined man – perhaps even a Level 5 – as his successor. Bob Eaton rescued Chrysler from its second near-death crisis in a decade and set the foundation for a more enduring corporate transition.

An Unwavering Resolve

Besides extreme humility, Level 5 leaders also display tremendous professional will. When George Cain became CEO of Abbott Laboratories, it was a drowsy family-controlled business, sitting at the bottom quartile of the pharmaceutical industry, living off its cash cow, erythromycin. Cain was a typical Level 5 leader in his lack of pretense; he didn't have the kind of inspiring personality that would 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. For the next 14 years, he relentlessly imposed his will for greatness on Abbott Labs.

Among Cain's first tasks was to destroy one of the root causes of Abbott's middling performance: nepotism. By systematically rebuilding both the board and the executive team with the best people he could find, Cain made his statement. Family ties no longer mattered. If you couldn't become the best executive in the industry, within

your span of responsibility, you would lose your paycheck.

Such near-ruthless rebuilding might be expected from an outsider brought in to turn the company around, but Cain was an 18-year insider – and a part of the family, the son of a previous 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?" – but in the end, family members were pleased with the performance of their stock. Cain had set in motion a profitable growth machine. From its transition in 1974 to 2000, Abbott created shareholder returns that beat the market 4.5:1, outperforming industry superstars Merck and Pfizer by a factor of two.

Another good example of iron-willed Level 5 leadership comes from Charles R. "Cork" Walgreen III, who transformed dowdy Walgreens into a company that outperformed the stock market 16:1 from its transition in 1975 to 2000. After years of dialogue and debate within his executive team about what to do with Walgreens' food-service operations, this CEO sensed the team had finally reached a watershed: the company's brightest future lay in convenient drugstores, not in food service. Dan Jorndt, who succeeded Walgreen in 1988, describes 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 more than 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 had only 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 now 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 for winding down our restaurant business. Cork never wavered. He never doubted. He never second-guessed.

Like Darwin Smith selling the mills at Kimberly-Clark, Cork Walgreen required stoic resolve to make his decisions. Food service was not the largest part of the business, although it did add substantial profits to the bottom line. The real problem was more emotional than financial. Walgreens had, after all, invented the malted milk shake, and food service had been a long-standing family tradition dating back to Cork's grandfather. Not only that, some food-service outlets were even named after the CEO – for example, a restaurant chain named Corky's. But no matter, if Walgreen had to fly in the face of family tradition in order to refocus on the one arena in which Walgreens could be the best in the world – convenient drugstores – and terminate everything else that would not produce great results, then Cork would do it. Quietly, doggedly, simply.

One final, yet compelling, note on our findings about Level 5: because Level 5 leaders have ambition not for themselves but for their companies, they routinely select superb successors. Level 5 leaders want to see their companies become 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 them. As one Level 5 CEO said, "I want to look from my porch, see the company as one of the great companies in the world someday, and be able to say, 'I used to work there.'" By contrast, Level 4 leaders often fail to set up the company for enduring success – after all, what better testament to your own personal greatness than that the place falls apart after you leave?

In more than three-quarters of the comparison companies, we found executives who set up their successors for failure, chose weak successors, or both. Consider the case of Rubbermaid, which grew from obscurity to become one of *Fortune*'s most admired companies – and then, just as quickly, disintegrated into such sorry shape that it had to be acquired by Newell.

The architect of this remarkable story was a charismatic and brilliant leader named Stanley C. Gault, whose

The Yin and Yang of Level 5

PERSONAL HUMILITY	PROFESSIONAL WILL
Demonstrates a compelling modesty, shunning public adulation; never boastful.	Creates superb results, a clear catalyst in the transition from good to great.
Acts with quiet, calm determination; relies principally on inspired standards, not inspiring charisma, to motivate.	Demonstrates an unwavering resolve to do whatever must be done to produce the best long-term results, no matter how difficult.
Channels ambition into the company, not the self; sets up successors for even more greatness in the next generation.	Sets the standard of building an enduring great company; will settle for nothing less.
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.

name became synonymous in the late 1980s with the company's success. Across the 312 articles collected by our research team about 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." In another, drawn directly from his own comments on leading change, the word "I" appears 44 times, while the word "we" appears 16 times. Of course, 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, to be sure, and one that deserves respect.

THERE ARE TWO CATEGORIES OF PEOPLE: THOSE WHO DON'T HAVE THE LEVEL 5 SEED WITHIN THEM AND THOSE WHO DO.

But Gault did not leave behind a company that would be great without him. His chosen successor lasted a year on the job and the next in line faced a management team so shallow that he had to temporarily shoulder four jobs while scrambling to identify a new number-two executive. Gault's successors struggled not only with a management void but also with strategic voids that would eventually bring the company to its knees.

Of course, you might say – as one *Fortune* article did – that the fact that Rubbermaid fell apart after Gault left proves his greatness as a leader. Gault was a tremendous Level 4 leader, perhaps one of the best in the last 50 years. But he was not at Level 5, and that is one crucial reason why Rubbermaid went from good to great for a brief, shining moment and then just as quickly went from great to irrelevant.

The Window and the Mirror

As part of our research, we interviewed Alan L. Wurtzel, the Level 5 leader responsible for turning Circuit City from a ramshackle company on the edge of bankruptcy into one of America's most successful electronics retailers. In the 15 years after its transition date in 1982, Circuit City outperformed the market 18.5:1.

We asked Wurtzel to list the top five factors in his company's transformation, ranked by importance. His number one factor? Luck. "We were in a great industry, with the wind at our backs." But wait a minute, we retorted, Silo – your comparison company – was in the same industry, with the same wind, and bigger sails. The conversation went back and forth, with Wurtzel refusing to take much credit for the transition, preferring to attribute it largely to just being in the right place at the right time. Later, when we asked him to discuss the factors that would sustain a good-to-great 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 Level 5 leaders we identified invoked it frequently. We asked an executive at steel company Nucor why it had such a remarkable track record of making good decisions. His response? "I guess we were just lucky." Joseph F. Cullman III, the Level 5 CEO of Philip Morris, flat out refused to take credit for his company's success, citing his good fortune to have great colleagues, successors, and predecessors. Even the book he wrote about his career – which he penned at the urging of his colleagues and which he never intended to distribute widely outside the company – had the unusual title *I'm a Lucky Guy.*

At first, we were puzzled by the Level 5 leaders' emphasis on good luck. After all, there is no evidence that the companies that had progressed from good to great were blessed with more good luck (or more bad luck, for that matter) than the comparison companies. But then we began to notice an interesting pattern in the executives at the comparison companies: they often blamed their situations on bad luck, bemoaning the difficulties of the environment they faced.

Compare Bethlehem Steel and Nucor, for example. Both steel companies operated with products that are hard to differentiate, and both faced a competitive challenge from cheap imported steel. Both companies paid significantly higher wages than most of their foreign competitors. And yet executives at the two companies held completely different views of the same environment.

Bethlehem Steel's CEO summed up the company's problems in 1983 by blaming the imports: "Our first, second, and third problems are imports." Meanwhile, Ken Iverson and his crew at Nucor saw the imports as a blessing: "Aren't we lucky; steel is heavy, and they have to ship it all the way across the ocean, giving us a huge advantage." Indeed, Iverson saw the first, second, and third problems facing the U.S. steel industry not in imports but in management. He even went so far as to speak out publicly against government protection against imports, telling a gathering of stunned steel executives in 1977 that the real problems facing the industry lay in the fact that management had failed to keep pace with technology.

The emphasis on luck turns out to be part of a broader pattern that we came to call *the window and the mirror.* Level 5 leaders, inherently humble, look out the window to apportion credit – even undue credit – to factors outside themselves. If they can't find a specific person or event to give credit to, they credit good luck. At the same time, they look in the mirror to assign responsibility, never cit-

ing bad luck or external factors when things go poorly. Conversely, the comparison executives frequently looked out the window for factors to blame but preened in the mirror to credit themselves when things went well.

The funny thing about the window-and-mirror concept is that it does not reflect reality. According to our research, the Level 5 leaders *were* responsible for their companies' transformations. But they would never admit that. We can't climb inside their heads and assess whether they deeply believed what they saw in the window and the mirror. But it doesn't really matter, because they acted as if they believed it, and they acted with such consistency that it produced exceptional results.

Born or Bred?

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. "I believe what you've told us about Level 5 leadership," she said, "but I'm disturbed because I know I'm not there yet, and maybe I never will be. Part of the reason I got this job is because of my strong ego. Are you telling me that I can't make my company great if I'm not Level 5?"

"Let me return to the data," I responded. "Of 1,435 companies that appeared on the *Fortune* 500 since 1965, only 11 made it into our study. In those 11, all of them had Level 5 leaders in key positions, including the CEO role, at the pivotal time of transition. Now, to reiterate, we're not saying that Level 5 is the only element required for the move from good to great, but it appears to be essential."

She sat there, quiet for a moment, and you could guess what many people in the room were thinking. Finally, she raised her hand again. "Can you learn to become Level 5?" I still do not know the answer to that question. Our research, frankly, did not delve into how Level 5 leaders come to be, nor did we attempt to explain or codify the nature of their emotional lives. We speculated on the unique psychology of Level 5 leaders. Were they "guilty" of displacement – shifting their own raw ambition onto something other than themselves? Were they sublimating their egos for dark and complex reasons rooted in childhood trauma? Who knows? And perhaps more important, do the psychological roots of Level 5 leadership matter any more than do the roots of charisma or intelligence? The question remains: Can Level 5 be developed?

My preliminary hypothesis is that there are two categories of people: those who don't have the Level 5 seed within them and those who do. The first category consists of people who could never in a million years bring themselves to subjugate their own needs to the greater ambition of something larger and more lasting than themselves. For those people, work will always be first and foremost about what they get – the fame, fortune, power, adulation, and so on. Work will never be about what they build, create, and contribute. The great irony is that the animus and personal ambition that often drives people to become a Level 4 leader stands at odds with the humility required to rise to Level 5.

Level 5 leaders look out the window to assign credit – even undue credit. They look in the mirror to assign blame, never citing external factors.

When you combine that irony with the fact that boards of directors frequently operate under the false belief that a larger-than-life, egocentric leader is required to make a company great, you can quickly see why Level 5 leaders rarely appear at the top of our institutions. We keep putting people in positions of power who lack the seed to become a Level 5 leader, and that is one major reason why there are so few companies that make a sustained and verifiable shift from good to great.

The second category consists of people who could evolve to Level 5; the capability resides within them, perhaps buried or ignored or simply nascent. Under the right circumstances – with self-reflection, a

mentor, loving parents, a significant life experience, or other factors – the seed can begin to develop. Some of the Level 5 leaders in our study had significant life experiences that might have sparked development of the seed. Darwin Smith fully blossomed as a Level 5 after his near-death 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; he considered the next 60-odd years a great gift. A strong religious belief or conversion might also nurture the seed. Colman Mockler, for example, converted to evangelical Christianity while getting his MBA at Harvard, and later, according to the book *Cutting Edge,* he became a prime mover in a group of Boston business executives that met frequently over breakfast to discuss the carryover of religious values to corporate life.

We would love to be able to give you a list of steps for getting to Level 5 – other than contracting cancer, going through a religious conversion, or getting different parents – 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 another – the inner development of a person to Level 5 leadership. We could speculate on what that inner box might hold, but it would mostly be just that, speculation.

In short, Level 5 is a very satisfying idea, a truthful idea, a powerful idea, and, to make the move from good to great, very likely an essential idea. But to provide "ten steps to Level 5 leadership" would trivialize the concept.

My best advice, based on the research, is to practice the other good-to-great disciplines that we discovered. Since we found a tight symbiotic relationship between each of the other findings and Level 5, we suspect that conscientiously trying to lead using the other disciplines can help you move in the right direction. There is no guarantee that doing so will turn executives into full-fledged Level 5 leaders, but it gives them a tangible place to begin, especially if they have the seed within.

We cannot say for sure what percentage of people have the seed within, nor how many of those can nurture it enough to become Level 5. Even those of us on the research team who identified Level 5 do not know whether we will succeed in evolving to its heights. And yet all of us who worked on the finding have been inspired by the idea of trying to move toward Level 5. Darwin Smith, Colman Mockler, Alan Wurtzel, and all the other Level 5 leaders we learned about have become role models for us. Whether or not we make it to Level 5, it is worth trying. 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 making the effort to get there. ▽

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"As it is, the only decisions I can make are no-brainers."

DRAWING BY NICK DOWNES