September/October 2001

The Misguided Mix-Up of Celebrity and Leadership

Conference Board Annual Report, Annual Feature Essay

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Virtually everything our modern culture believes about the type of leadership required to transform our institutions is wrong. It is also dangerous. There is perhaps no more corrosive trend to the health of our organizations than the rise of the celebrity CEO, the rock-star leader whose deepest ambition is first and foremost self-centric.

In 1996, my research team and I began to wrestle with a simple question: Can a good company become a great company and, if so, how? If we could find organizations that had made the leap from good to great and isolate the factors that distinguished these examples from carefully selected comparison companies that failed to make the leap (or if they did, failed to sustain it), we would shed light on the key variables that separate great from good. We embarked on a five-year study to answer this one deceptively simple question, examining merely good performers that had somehow transformed themselves to achieve truly great results. (We defined “great results” as cumulative stock returns at least 3.0 times better than the general stock market over fifteen years, a performance superior to most widely admired companies. For perspective, General Electric from 1985 to 2000 beat the market only 2.8 to 1.)

We uncovered a number of key requirements and underlying variables for turning a good company into a great one. But perhaps the most intriguing—and certainly the most surprising—is the type of leadership that turns good into great.

Consider Darwin E. Smith. In 1971, this seemingly ordinary man became chief executive of Kimberly-Clark. He inherited a company that for one hundred years had been merely good, never great. A mediocre player in the middling paper industry, Kimberly-Clark returns to investors had fallen 36 percent behind the general stock market over the twenty years prior to Darwin Smith’s ascension to CEO. Over the next twenty years, Smith led a stunning turnabout, generating returns to investors that beat the general stock market by over four times, easily outperforming such companies as Hewlett-Packard, General Electric, and Coca-Cola.

Have you ever heard of Darwin Smith? Despite being one of the greatest CEOs of the twentieth century, he remains largely unknown. A shy and reserved man, Smith shunned any attempt to shine the spotlight on him, preferring instead to direct attention to the company and its people. He showed none of the swagger that characterizes many of today’s high-profile CEOs, and he never viewed himself as a great hero. Early in Smith’s tenure as CEO, a director pulled Smith aside to remind him that he lacked some of the qualifications for the position (he had been corporate counsel and had never run a major division). Smith, a man who never entirely erased his own self-doubts, later summed up his tenure by saying simply, “I never stopped trying to become qualified for the job.”

Yet despite his shy and self-effacing nature, Smith was anything but weak. When it came time to make the big decisions required to make the company great, he made them. Early in his tenure, Kimberly-Clark's business—sell even the namesake mill in Kimberly, Wisconsin—and throw all the money into the consumer business, investing in brands like Huggies and Kleenex. It was a huge and painful step. Coming home from work during this particularly difficult period, a wearied Smith said to his wife, "It's really tough. But if you have a cancer in your arm, then you've got to have the guts to cut off your arm."

Wall Street derided him, the business media called the move stupid, and the analysts wrote merciless commentary. After all, how on earth could such a mediocre paper company take on the giants of the consumer business? But in the end, Smith's stoic resolve paid off. Kimberly-Clark became the number one paper-based consumer products company in the world, eventually beating Procter & Gamble in six of eight product categories and owning outright its previous main competitor, Scott Paper. I think we can safely say that Darwin Smith did indeed become qualified for the job.

Level 5 leadership: The antithesis of egocentric celebrity

If you want to grasp the essence of the type of leader who turns good into great, just keep in mind Darwin Smith. It turns out that every good-to-great company in our study had a leader from the Darwin Smith school of management at the helm during the pivotal years.

We eventually came to call these remarkable people "Level 5 leaders." The term "Level 5" refers to a five-level hierarchy. Level 1 relates to individual capability, Level 2 to team skills, Level 3 to managerial competence, and Level 4 to leadership as traditionally conceived. Level 5 leaders possess the skills of levels 1 to 4 but also have an "extra dimension": a paradoxical blend of personal humility ("I never stopped trying to become qualified for the job") and professional will ("sell the mills"). They are somewhat self-effacing individuals who deflect adulation, yet who have an almost stoic resolve to do absolutely whatever it takes to make the company great, channeling 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 and its greatness, not for themselves.*

David Maxwell, the good-to-great CEO at Fannie Mae in the 1980s and early 1990s, was another such leader. He took over a bureaucratic, quasi-governmental entity losing $1 million every single business day and turned it into one of the smartest, best-run financial institutions in the world, earning $4 million every business day. Fannie Mae cumulative stock returns beat the general stock market by nearly four times under Maxwell, and he set the stage for the next generation to continue the momentum, eventually outperforming the market by over seven times.

When his nearly $20 million retirement package became a point of controversy in Congress (Fannie Mae is subject to congressional oversight due to its government charter), Maxwell became concerned that the controversy might damage the company's future. So he instructed his successor to not pay him the remaining third of his package and to donate it instead to the Fannie Mae foundation for low-income housing.

Like all Level 5 leaders, Maxwell wanted to see the company become even more successful in the next generation than in his own. Preferring to be clock builders rather than time tellers, Level 5 leaders are comfortable with the idea that their companies will tick on without them, reaching even greater heights due to the foundations they laid down. The fact that most people will not know that the roots of that success trace back to them is not an overriding concern. As one Level 5 leader put it, "I want to look out from my porch at one of the great companies of the world and be able to say, 'I used to work there.'"

extraordinary executives who led companies from good to great using our tough benchmarks—are relatively unknown. In addition to Darwin Smith and David Maxwell, they include such obscure figures as George Cain, Alan Wurtzel, Colman Mockler, Lyle Everingham, Fred Allen, Joe Cullman, Carl Reichardt and Charles Walgreen III. These and other leaders in our study quietly went about building greatness step by step, without much fanfare or hoopla, while generating results that are extraordinary by any standard. If you had had an opportunity to invest in each of the good-to-great companies at the point of upward inflection created by these leaders and held your investments to 2000, your total returns would have exceeded those of a comparable investment in a mutual fund of the general stock market by well over eight times. Yet despite these remarkable results, almost no one has ever remarked about these leaders. The media paid scant attention, and you'll find very few articles ever written about them.

In contrast, the comparison leaders in our study—people like Al Dunlap of Scott Paper (the comparison company to Kimberly-Clark)), Lee Iacocca of Chrysler (a company that failed to make a sustained shift from good to great) and Stanley Gault of Rubbermaid (a company that imploded after Gault departed)—garnered vastly more attention. Some of the comparison CEOs became wealthy celebrities—covers of magazines, bestselling autobiographies, massive compensation packages—despite the fact that their long-term results failed to measure up to the quiet, unknown Level 5s. In over two-thirds of the comparison companies, we noted the presence of a gargantuan personal ego that contributed to the demise or continued mediocrity of the company. These leaders were ambitious for themselves, and they succeeded admirably on this score, but they failed utterly in the task of creating an enduring great company.

Looking for Level 5 leaders

The implications are obvious. Boards of directors and executives planning for succession would do well to search for the type of leadership— Level 5 leadership—correlated with the best and most enduring results. To do otherwise is to sacrifice long-term effectiveness for short-term expedience, which is tantamount to an act of irresponsibility on behalf of a company's constituents, including its shareholders. To be clear, Level 5 leadership is not the only requirement for taking a company from good to great and for sustaining greatness once it is attained, but it does appear to be essential.

So, how should we go about identifying Level 5 leaders?

The key step is to stop looking for outsized personalities and egocentric celebrities, and instead to scrutinize for results. Look inside for some part of the organization where extraordinary results have been produced but where there is no person standing forth to take excessive credit for those results. Look there and you will likely find a Level 5 leader. And if you feel you must look to the outside (which the good-to-great companies almost never did), then look for people who show the following traits.

Two sides of the Level 5 leader

On the one hand… Creates—and is a clear catalyst in creating—superb results. Yet on the other hand… Demonstrates a compelling modesty, shunning public adulation and never boastful.

On the one hand… Demonstrates an unwavering resolve to do whatever must be done to produce the best long-term results, no matter how difficult. Yet on the other hand… Acts with quiet, calm determination and relies principally on inspired standards—not an inspiring personality—to motivate.

On the one hand… Sets the standard of building an enduring great organization and will settle for self, setting up successors for even greater success in the next generation.

On the one hand… Looks in the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, external factors, or bad luck. Yet on the other hand… 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.

I used to think of these leaders as rare birds, almost freaks of nature. But then a funny thing happened after a seminar where I shared the Level 5 finding and bemoaned the lack of Level 5 leaders. After the session, a number of people stopped by to give examples of Level 5 leaders they'd observed or worked with. Then again, at another seminar, the same thing happened. Then again, at a third seminar—and a pattern began to emerge.

It turns out that many people have experienced Level 5 leadership somewhere in their development—a Level 5 sports coach, a Level 5 platoon commander, a Level 5 boss, a Level 5 entrepreneur, a Level 5 CEO. There is a common refrain: "I couldn't understand or put my finger on what made him so effective, but now I understand: he was a Level 5." People began to clip articles and send e-mails with examples of people they think of as Level 5 leaders, past or present: Orin Smith of Starbucks Coffee, Joe Torre of the New York Yankees, Kristine McDivitt of Patagonia, John Whitehead of Goldman Sachs, Frances Hesselbein of The Drucker Foundation, Jack Brennan of Vanguard, John Morgridge of Cisco Systems, former Secretary of State George Shultz, and so on. My list of Level 5 leaders began to grow exponentially.

Then it dawned on me: Our problem is not a shortage of Level 5 leaders. They exist all around us. Like the drawing of two faces that transforms itself into a vase, depending on how you look at the picture, Level 5 leadership jumps out at us as soon as we change how we look at the world and alter our assumptions about how it best works.

No, our problem lies in the fact that our culture has fallen in love with the idea of the celebrity CEO. Charismatic egotists who swoop in to save companies grace the covers of major magazines because they are much more interesting to read and write about than people like Darwin Smith and David Maxwell. This fuels the mistaken belief held by many directors that a high-profile, larger-than-life leader is required to make a company great. We keep putting people into positions of power who lack the inclination to become Level 5 leaders, and that is one key reason why so few companies ever make a sustained and verifiable shift from good to great.

The fact that our culture has evolved away from Level 5 leadership, however, does not mean that the culture is right or that we should accept it. After all, our culture in the 1990s also embraced the idea of irrational exuberance and infused people with the idea that they could—indeed should—get rich quick by creating companies that were Built to Flip rather than Built to Last. The culture was neither right nor healthy, and we would have done better to reject that culture and hold to fundamental tenets of creation and value that we knew in our guts to be eternally true. The same holds for our current misguided confusion of celebrity and leadership; it is neither right nor healthy. If we allow the celebrity rock-star model of leadership to triumph, we will see the decline of corporations and institutions of all types. The twentieth century was a century of greatness, but we face the very real prospect that the next century will see very few enduring great institutions. If good is the enemy of great—and I believe it is—the current trends in leadership give the decided edge to the enemy.

Yet I remain optimistic. For one thing, I sense an increasing societal unease with the emergence of celebrity leaders who care more about themselves than they do about the institutions for which self-serving leaders who use our institutions—whether in the corporate or social sectors—to advance their own interests. For another, we now have hard empirical evidence that shows such leaders to be negatively correlated with sustained great results, and this evidence should bolster courageous boards of directors. Finally, and perhaps most important, I am absolutely convinced that the seed of Level 5 leadership is widely dispersed throughout society. It can be identified. It can be cultivated. It can be developed. Given encouragement and the right tools, it can flourish. And if it does, so will our institutions.