

transform leader insights

Equipping leaders through insights that impact daily

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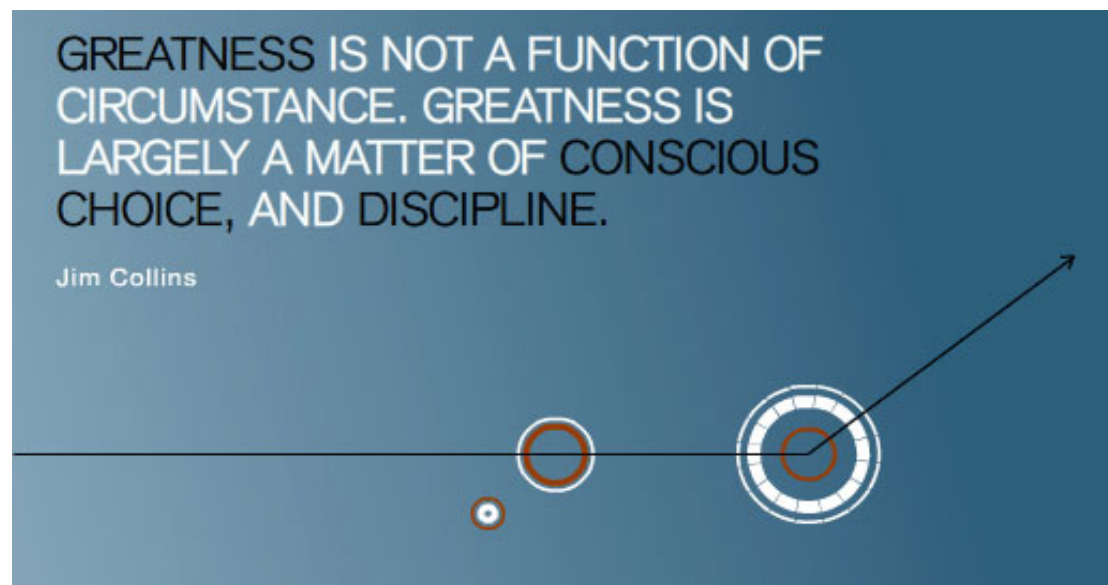
Monthly Insights #5

MOVING BEYOND AVERAGE TO GREAT



What makes leaders great?

- Is it their courage?
- Their business acumen?
- Their expert knowledge?
- Their ability to organize?
- Their people skills?
- Their visionary capacity?

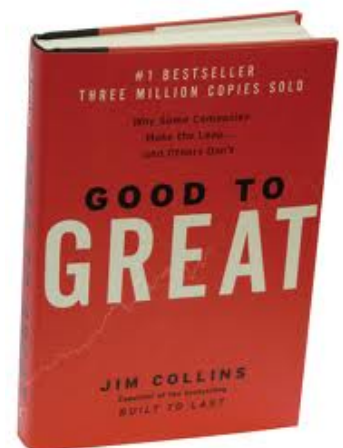


Over the last 4 issues of Transform Leaders Insight we have been exploring leadership mindsets, character traits, and relational skills. Before we move onto some of the skills that leaders need to be successful, I thought it would be interesting to use the work of one of my favourite authors on organisational and leadership effectiveness, Jim Collins. Jim Collins' books are based on meticulous research on why and how companies perform above the average. He explores the attributes and abilities of how organisations and leaders have excelled.

We are going to examine some of the concepts and implications from two of Jim Collins books – "From Good to Great" and "Great by Choice".

Truly great leaders have a specific blend of skills. But they also possess something else, certain characteristics which are harder to define. If you're in a leadership role, then you've likely wondered how you can move to that "next level," going from good to great leadership.

Some of you may have read these books, enjoy reacquainting yourself with the concepts and the implications for your leadership. For others these might be new concepts – enjoy exploring and evaluating your leadership (and organisation) in light of the insights from Jim Collins.



The place to start is by exploring the finding from the book Good to Great. Jim Collins says that he tried to find something other than leadership as being the key to moving an organisation from good to great. He didn't want to be sucked into the "everything rises and falls on leadership" mantra uncritically. When the data was crunched it concluded that leadership was the key ingredient, but a specific type of leadership. This is where he came up with the term level 5 leaders.

Introducing Level 5 Leadership

Collins looked at 1,435 companies, and ended up choosing 11 truly great ones. These 11 companies were all headed by what Collins called "Level 5 Leaders."

Jim Collins came up with a definition of a Level 5 Leader as "an individual who blends extreme personal humility with intense professional will, and a definition of Level 5 Leadership - builds enduring greatness through a paradoxical blend of personal humility and professional will. According to Collins, HUMILITY + WILL = LEVEL 5 (page 22) and this formula is acceptable if we think of humility as part of Personal Humility and will as part of "Professional Will."

He found that these leaders have humility, and they don't seek success for their own glory; rather, success is necessary so that the team and organization can thrive. They share credit for success, and they're the first to accept blame for mistakes. Collins also says that they're often shy, but fearless when it comes to making decisions, especially ones that most other people consider risky.



Level 5 Leaders possess qualities found in four other levels of leadership that Collins identified. Although you don't have to pass sequentially through each individual level before you become a Level 5 Leader, you must have the skills and capabilities found in each level of the hierarchy.

Let's look at each of the five levels in more detail:

Level 1: Highly Capable Individual

At this level, you make high quality contributions with your work. You possess useful levels of knowledge; and you have the talent and skills needed to do a good job.

Level 2: Contributing Team Member

At Level 2, you use your knowledge and skills to help your team succeed. You work effectively, productively and successfully with other people in your group. This is the point at which many people get promoted to supervisor or manager. It is a huge leap for which not everyone is ready or equipped.

Level 3: Competent Manager

Here you're able to organise a group effectively to achieve specific goals and objectives. The competent manager needs a leader to be able to articulate vision, think outside of the box and inspire people.

Level 4: Effective Leader

Level 4 is the category that most top leaders fall into. Here you're able to galvanise a department or organisation to meet performance objectives and achieve a vision. Thinking beyond the day-to-day work is happening consistently. This leader is also thinking about culture and strategy.

Level 5: Great Leader

At Level 5, you have all of the abilities needed for the other four levels, plus you have the unique blend of humility and will that's required for true greatness.

How to Become a Level 5 Leader

It takes time and effort to become a Level 5 Leader. However the good news is that it can be done, especially if you have the passion to try.

Here are some strategies that will help you grow emotionally and professionally, so that you can develop the qualities of a Level 5 Leader:

Develop Humility

Level 5 Leaders are humble people. The dictionary defines humility as “modesty, lacking pretense, not believing that you are superior to others.”

There is the understated humility of every day people we work with who have the



ability to get the job done without drawing attention to themselves. Witness the employee who is working at his computer into the late hours, purely motivated by a keen sense of duty, the executive assistant who stays after 5:30pm on a Friday night in an empty office to await a courier, or the manager who quietly cancels an important personal event to fly out of town to attend to the company's business. This is akin to the philanthropist who gives an anonymous donation.

Humility is also a virtue that crosses over an array of principles. For example, we can safely declare that there cannot be authenticity without humility. Why? Because there is always a time in a leader's journey when one will be in a situation of not having all the answers. Admitting this and seeking others' input requires some humility.

Another mark of a leader who practices humility is his or her treatment of others. Such leaders treat everyone with respect regardless of position. Years ago, I came across this reference: "the sign of a gentleman is how he treats those who can be of absolutely no use to him".

Something interesting happens, too, when we approach situations from a perspective of humility: it opens us up to possibilities, as we choose open-mindedness and curiosity over protecting our point of view. We spend more time in that wonderful space of the beginner's mind, willing to learn from what others have to offer. We move away from pushing into allowing, from insecure to secure, from seeking approval to seeking enlightenment. We forget about being perfect and we enjoy being in the moment.

Ensuring that we behave in a humble way, for example, whenever your team has success, make sure that credit goes to them for their hard work.

Conversely, as a leader, you need to take responsibility for your team's efforts, even when things go wrong.

Ask for Help

Level 5 Leaders are sometimes mistakenly thought of as "weak," because they ask for help when they need it.

However, learning how to ask for help is a genuine strength, because it lets you call upon the expertise of someone stronger in an area than you are. The result? The entire team or organisation wins; not just you.

Guy Kawasaki says, "A players recruit A+ players, while B players recruit C players". If you're recruiting A+ players, why wouldn't you take full advantage of their skills? (The truth is that if you can recruit A+ people successfully and get the best from them, then you've become an A+ leader.)

Take Responsibility

A top attribute of Level 5 Leaders is that they take responsibility for their team's mistakes or failings.

Collins calls this "the window and the mirror". Based on his research, Level 5 leaders

looked out of the window to credit others for success and looked in the mirror to apportion responsibility when things didn't go to plan. Conversely, charismatic leaders from companies that didn't make the grade as great had a tendency to look through the window to blame other factors for their lack of success and looked in the mirror to take credit when things went well.

So make sure that you take responsibility for your (and your team's) actions.

Lead with Passion

Level 5 Leaders are passionate about what they do, and they're not afraid to show it.

When you demonstrate to your team members that you love and believe in what you're doing, they will too. If you're having a hard time finding passion in your work, then you need to search for the human benefit in what you're doing.

First Who, the Where



One of the things most people assume they will find when studying good-to-great companies is a compelling new vision, strategy, or direction, around which management will gain people's commitment.

The truth is quite the opposite. Executives who ignited transformations from good to great did not first figure out where to drive the bus, then get the people to take it there. Instead, they first got the right people on the bus (and the wrong people off), and then figured out where to drive it. "Who" questions must come before "what" decisions — before vision, before strategy, before organisation structure, before tactics.

Simple Truths

Good-to-great leaders understand three simple truths:

1. If you begin with the "who," rather than the "what," you can more easily adapt to a changing world.
2. If you have the right people on the bus, the problem of how to motivate and manage people largely goes away.
3. If you have the wrong people, it doesn't matter whether you discover the right direction—you still won't have a great company. Great vision without great people is irrelevant.

Good-to-great companies tend to have rigorous cultures — cultures in which leadership consistently applies exacting standards at all times and at all levels, especially upper management. To be rigorous means that the best people need not worry about their positions, leaving them to concentrate fully on doing their best work. It can also mean being up front about the need to let people go, if that is warranted.

To be rigorous in people decisions means first becoming rigorous about top management people decisions, and to following three practical disciplines:

- When in doubt, don't hire — keep looking. No company can grow revenues consistently faster than its ability to get enough of the right people to implement that growth, and still become a great company. If your growth rate in revenues consistently outpaces your growth rate in people, you cannot build a great company.
- When you know you need to make a people change, act. The moment you feel the need to tightly manage someone, you've made a hiring mistake. The best people don't need to be managed — guided, taught, led, yes, but not tightly managed. Don't delay, try different alternatives, give third or fourth chances, or build systems to compensate for shortcomings. Letting the wrong people hang around is unfair to all the right people, who often find themselves compensating for the wrong people's inadequacies. Get the wrong people off the bus.
- Put your best people on your biggest opportunities, not your biggest problems. Many companies think that putting their best people in bad situations will help turn the bad situation around. While this sometimes works to everyone's advantage, managers who do so fail to grasp the fact that managing your problems can only make you good. Building opportunities is the only way to become great.

Level 5 Leaders depend on the people around them. They spend time finding the right people and helping them reach their full potential.

My dad, a great leader in his own right, always said to me, "The best leaders surround themselves with people who are better than them."

Great leaders understand that it is a waste of time trying to "motivate people". The right people are self-motivated but can be de-motivated.

Confront the Brutal Facts

(But Never Lose Faith in the Potential for Greatness)

It is impossible to make good decisions without an honest confrontation of the brutal facts. Level 5 leaders create a culture wherein the truth can be heard. They lead with questions, engage in dialogue not coercion, and conduct autopsies without blame.

Often time charisma can be as much a liability as an asset, because a strong personality often deters people from presenting the brutal facts.



The Hedgehog Concept

Level 5 leaders help their organisation clarify, what Collins calls the Hedgehog concept.

Jim Collins (citing Isaiah Berlin) compares a fox to a hedgehog. The fox knows many things, the hedgehog knows one big thing. The fox spends its day figuring out how to attack the hedgehog in various cunning ways, but the hedgehog remains safe because it knows that it is better than anyone else at one thing: curling up into a ball of spikes. The point of this is that companies should know what their “hedgehog” is — they should know what they are the very best at and stick to it. What is your company the very best at?

The Organisations should only do what they:

- 1) Can be great at,
- 2) Can make money at (or raise enough money to keep doing if not-for-profit)
- 3) Have a passion for doing.

The Hedgehog Concept is not a vision or strategy, but an understanding. Good-to-great companies set their goals and strategies based on understanding; others set their goals and strategies based on bravado.



Hedgehog companies are simple creatures that know one big thing and stick to it. Other companies are more like foxes that know many things but lack consistency.

A Culture of Discipline

Sustained great results depend upon building a culture of disciplined people who take disciplined action within the three circles of the Hedgehog Concept. A culture of discipline requires disciplined people who engage in disciplined thought, and then take disciplined action.

Level 5 Leaders are incredibly disciplined in their work. When they commit to a course of action, no matter how difficult it is, they stick to their resolve.

If you know in your heart that you're right, then don't let naysayers dissuade you from a course of action. It's always important to listen to differing opinions of course, but don't let fear be your driving motivator when you make a change or a decision.

Level 5 leaders are almost fanatical in their approach. Once they have set a course they stick to it. There is a ploughman like work ethic. They are not show ponies.



I contrast that with the owner of a company I did a consultancy with. The owner is a brilliant visionary and marketer. They asked us to help them develop their strategic plan for the next five years. The General Manager and department managers were very excited as we went through the process of identifying the big picture and agreeing to a Strategic direction.

The comments to me over my time were how every week there was a new “brilliant” idea that was going to make them money. The company was lurching from one idea to the next. During the actual consultancy the owner changed the brief and asked us to develop a business plan and prospectus for a new arm of the business. The company was average because there was no discipline of thought or action.

The single most important form of discipline for sustained results is fanatical adherence to the Hedgehog Concept, and the willingness to shun opportunities that fall outside the three circles.

Craig's Take-Away

There is a dynamic interplay between a leader's **character**, **clarity** of thought, **capacity** to surround themselves with great people.

Character, capacity and clarity needs to be wrapped in disciplined action.

If one element is missing or deficient then a leader will not move to level 5.



GREAT BY CHOICE

Jim Collins' latest book is called "Great by Choice: Uncertainty, chaos, and luck – why some thrive despite them all".

Below is a summary of the book which I believe you will find interesting, as we reflect on the similarities and implications from his previous book.

Chapter 1: Thriving in Uncertainty

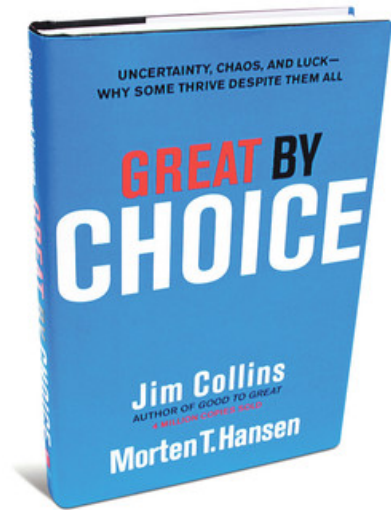
The nine-year research project behind this book started in 2002 around a simple question: ***Why do some companies thrive in uncertainty, even chaos, and others do not?*** When buffeted by tumultuous events, when hit by big, fast-moving forces that we can neither predict nor control, what distinguishes those who perform exceptionally well from those who underperform or worse?

The critical question is not "What did great companies share in common?" The critical question is "What did great companies share in common that distinguished them from their direct comparisons?" Comparisons are companies that were in the same industry with the same or very similar opportunities during the same era as the 10X companies, yet they did not produce great performance. 10Xers ("ten-EX-ers") - companies that didn't merely get by or just become successful. They truly thrived. Every 10X beat its industry index by at least 10 times. 10X cases in this study:

- Amgen, Biomet, Intel, Microsoft, Progressive Insurance, Southwest Airlines, Stryker

Research conducted shattered the following deeply entrenched myths:

- Successful leaders in a turbulent world are bold, risk-seeking visionaries
- Innovation distinguishes 10X companies in a fast-moving, uncertain and chaotic world
- A threat-filled world favours the speedy; you are either the quick or the dead
- Radical change on the outside requires radical change on the inside
- Great enterprises with 10X success have a lot more good luck



Chapter 2: 10Xers

On one hand, 10Xers understand that they face continuous uncertainty and that they cannot control, and cannot accurately predict significant aspects of the world around them. On the other hand, 10Xers reject the idea that forces outside their control or chance events will determine their results; they accept full responsibility for their own fate.

10Xers then bring this idea to life by a triad of core behaviours: fanatic discipline, empirical creativity and productive paranoia. Animating these three core behaviours is a central motivating force, Level 5 ambition. These behavioural traits, correlate with achieving 10X results in chaotic and uncertain environments. Fanatic discipline keep 10X enterprises on track, empirical creativity keeps them vibrant, productive paranoia keeps them alive, and Level 5 ambition provides inspired motivation.



Fanatical Discipline

- Discipline, in essence, is consistency of action – consistency with values, consistency with long-term goals, consistency with performance standards, consistency of method, consistency over time.
- 10Xers are utterly relentless, monomaniacal even, unbending in their focus on their quests. They don't overreact to events, succumb to the herd, or leap for alluring – but irrelevant – opportunities.

Empirical Creativity

- Empirical means relying upon direct observation, conducting practical experiments and/or engaging directly with evidence rather than relying on opinion, whim, conventional wisdom, authority or untested ideas.
- Having an empirical foundation enables 10Xers to make bold, creative moves and bound their risk.
- 10Xers had a much deeper empirical foundation for their decision and action, which gave them well-founded confidence and bounded their risk.

Productive Paranoia

- 10Xers differ from their less successful comparisons in how they maintain

hyper-vigilance in good times as well as bad. Even in calm, clear, positive conditions, 10Xers constantly consider the possibility that events could turn against them at any moment. Indeed, they believe that conditions will – absolutely with 100 percent certainty – turn against them without warning, at some unpredictable point in time, at some highly inconvenient?????????. And they'd better prepared.

Level 5 ambition

- 10Xers channel their ego and intensity into something larger and more enduring than themselves. They're ambitious, to be sure, but for a purpose beyond themselves, be it building a great company, changing the world or achieving some object that's ultimately not about them.
- 10Xers share Level 5 leaders' most important trait: they're incredibly ambitious, but their ambition is first and foremost for the cause, for the company, for the work, not themselves.

Chapter 3: 20 Mile March

The 20 Mile March was a distinguishing factor, to an overwhelming degree, between 10X companies and the comparison companies in the research.

Collins compares two Antarctic explorers both aiming to be the first to the South Pole. One is Ronald Amundsen, and the other is Robert Falcon Scott. The "20 Mile March" comes from the winner of the race. Amundsen's methodical, disciplined consistent approach was to march 20 miles each day no matter how good or bad the weather and conditions were. Scott would walk longer on the good days and shorter or not at all on the bad weather days. Interestingly it was the consistent and disciplined 20 mile march that won the day.



A good 20 Mile March has the following seven characteristics:

- Clear performance markers.
- Self-imposed constraints.
- Appropriate to the specific enterprise.
- Largely within the company's control to achieve.
- A proper timeframe – long enough to manage, yet short enough to have teeth.
- Imposed by the company upon itself.
- Achieved with high consistency.

Unexpected findings

20 Mile Marchers have an edge in volatile environments; the more turbulent the world, the more you need to be a 20 Mile Marcher.

There is an inverse correlation between pursuit of maximum growth and 10X success. Comparison – company leaders often pressed for maximum growth in robust times, thereby exposing their enterprises to calamity in an unexpected downturn. 10X winners left growth on the table, always assuming that something bad lurked just around the corner, thereby ensuring they wouldn't be caught overextended.

Chapter 4: Fire Bullets, Then Cannonballs

“Fire Bullets, Then Cannonballs:

“A bullet is an empirical test aimed at learning what works and that meets three criteria: a bullet must be low cost, low risk, and low distraction.

10Xers use bullets to empirically validate what will actually work. Based on those empirical validation, they then concentrate their resources to fire a cannonball, enabling large returns from concentrated bets.”

**—Jim Collins & Morten T. Hanson
Great By Choice**

A “fire bullets, then cannonballs” approach better explains the success of 10X companies than big-leap innovations and predictive genius.

A bullet is a low-cost, low-risk, and low-distraction test or experiment. 10Xers use bullets to empirically validate what will actually work. Based on that empirical validation, they then concentrate their resources to fire a cannonball, enabling large returns from concentrated bets. The 10X cases fired a significant number of bullets that never hit anything. They didn't know ahead of time which bullets would hit or be successful.

Unexpected findings

The 10X winners were not always more innovative than the comparison cases. In some

matched pairs, the 10X cases proved to be less innovative than their comparison cases. 10Xers appear to have no better ability to predict impending changes and events than the comparisons. They aren't visionary geniuses; they're empiricists.

The combination of creativity and discipline, translated into the ability to scale innovation with great consistency, better explains some of the greatest success stories – from Intel to Southwest Airlines, from Amgen's early years to Apple's resurgence under Steve Jobs – than the mythology of big-hit, single step breakthroughs.

Chapter 5: Leading above The Death Line

This chapter explores three key dimensions of productive paranoia:

1. **Build cash reserves and buffers** – oxygen canisters – to prepare for unexpected events and bad luck before they happen
2. **Bound risk** – death line risk, asymmetric risk, and uncontrollable risk – and manage time-based risk
3. **Zoom out, then zoom in**, remaining hyper-vigilant to sense changing conditions and respond effectively. 10Xers understand they cannot reliably and consistently predict future events, so they prepare obsessively – ahead of time, all the time – for what they cannot possibly predict. They assume that a series of bad events can wallop them in quick succession, unexpectedly at any time. It's what you do before the storm hits – the decisions and disciplines and buffers and shock absorbers already in place – that matters most in determining whether your enterprise pulls ahead, falls behind or dies when the storm hits. 10xers are extremely prudent in how they approach and manage risk, paying special attention to three categories of risk:
 - Death Line Risk (which can kill or severely damage the enterprise)
 - Asymmetric Risk (in which the downside dwarfs the upside)
 - Uncontrollable risk (which cannot be controlled or managed). Rapid change does not call for abandoning disciplined thought and disciplined action. Rather, it calls for upping the intensity to zoom out for fast yet rigorous decision making, and zoom in for fast yet superb execution.



Unexpected findings The 10Xers cases took less risk than the comparison cases yet produced vastly superior results. Contrary to the image of brazen, self-confident, risk-taking entrepreneurs, who see only upside potential. 10X leaders exercise productive paranoia, obsessing about what can go wrong. They ask questions like: what is the worst case scenario? What are the consequences of the worst case scenario? What if? What if? What if? The 10X cases didn't have a greater bias for speed than the comparison companies. Taking the time available before the risk profile changes, whether short or long, to make a rigorous and deliberate decision produces a better outcome than rushing a decision.

Chapter 6: SMaC

SMaC stands for Specific Methodical and Consistent. The more uncertain, fast-changing and unforgiving your environment, the more SMaC you need to have. A SMaC recipe is a set of durable operating practices that create a replicable and consistent success formula; it is clear and concrete, enabling the entire enterprise to unify and organise its efforts, giving clear guidance regarding what to do and what not to do. A SMaC recipe reflects empirical validation and insight about what actually works and why. Howard Putnam's 10 points at Southwest perfectly illustrates the point.

Developing a SMaC recipe, adhering to it, and amending it (rarely) when conditions merit, correlate with 10X success. This requires the three 10X behaviours: empirical creativity (for developing and evolving it), fanatic discipline (for sticking to it), and productive paranoia (for sensing necessary change).

Unexpected findings It is possible to develop specific concrete practices that can endure for decades – SmaC practices.

Chapter 7: Return on Luck

Some people think that maybe organisations or leaders that excel are simply 'luckier' than others. A luck event is one that meets three tests:

1. Some significant aspect of the event occurs. Yet 10X cases were largely or entirely independent of actions of the key factors in the enterprise
2. The event has a potentially significant consequence (good or bad) and
3. The event has some element of unpredictability.

Luck happens a lot, both good and back luck. Every company in our research experienced significant luck event in our era of analysis. Yet the 10X cases were not generally luckier than the comparison cases.

The leadership concepts in this book – fanatic discipline,



empirical creativity, productive paranoia, Level 5 ambition. 20 mile march, fire bullets, then cannonballs, leading above the death line and SMaC – all contribute directly to earning a great Return On Luck. 10Xers credit good luck as a contributor to their successes, despite the undeniable fact that others also experienced good luck, but they never blame bad luck for set backs or failures.

Unexpected findings Some of the comparison companies had extraordinarily good luck, better luck even than the 10X winners, yet failed because they squandered it. Return on Luck might be an even more important concept than return on assets (ROA), return on equity, return on sales (ROS) or return on investment.

Who Luck – the luck of finding the right mentor, partner, teammate, leader, friend – is one of the most important types of luck. The best way to find a current of good luck is to swim with great people, and to build deep and enduring relationships with people for whom you'd risk your life, and who'd risk their lives for you.

Craig's Take Away

The practices that Level 5 leaders pursue and enact don't seem that earth shattering. Any average leader probably knows most of what Jim Collins articulates in this book. What strikes me from the research findings is the level of dedication to details.

The difference between professional athletes is often millimeters. It the athlete who does the small things to get the best out of their body that often win, and get crowned champion.

As you look at the key finding in Great by Choice we see a level of discipline, professional willfulness and effort consistently applied at a level not often seen. A lot of leaders are okay with average, with cruising.



To change, something starts when we raise our standards. We expect more of ourselves.