

GREAT

GOOD TO

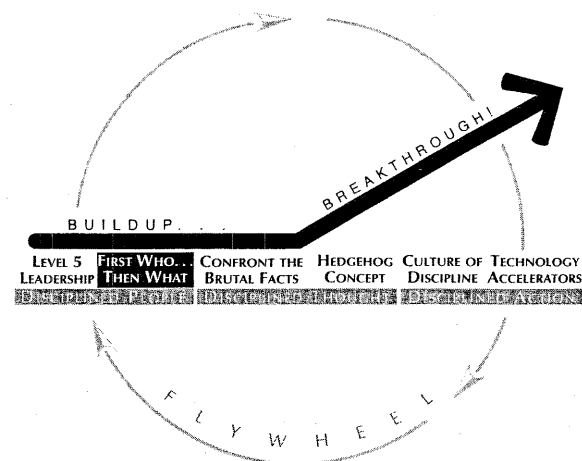
Why Some Companies
Make the Leap . . .
and Others Don't

J I M C O L L I N S

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CHAPTER 3

FIRST WHO . . . THEN WHAT



There are going to be times when we can't wait for somebody.
Now, you're either on the bus or off the bus.

—KEN KESEY,
from *The Electric Kool-Aid Acid Test*
by Tom Wolfe¹

When we began the research project, we expected to find that the first step in taking a company from good to great would be to set a new direction, a new vision and strategy for the company, and then to get people committed and aligned behind that new direction.

We found something quite the opposite.

The executives who ignited the transformations from good to great did not first figure out where to drive the bus and then get people to take it there. No, they *first* got the right people on the bus (and the wrong people off the bus) and *then* figured out where to drive it. They said, in essence, "Look, I don't really know where we should take this bus. But I know this much: If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we'll figure out how to take it someplace great."

The good-to-great leaders understood three simple truths. First, if you begin with “who,” rather than “what,” you can more easily adapt to a changing world. If people join the bus primarily because of where it is going, what happens if you get ten miles down the road and you need to change direction? You’ve got a problem. But if people are on the bus because of who else is on the bus, then it’s much easier to change direction: “Hey, I got on this bus because of who else is on it; if we need to change direction to be more successful, fine with me.” Second, if you have the right people on the bus, the problem of how to motivate and manage people largely goes away. The right people don’t need to be tightly managed or fired up; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great. Third, 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.

Consider the case of Wells Fargo. Wells Fargo began its fifteen-year stint of spectacular performance in 1983, but the foundation for the shift dates back to the early 1970s, when then-CEO Dick Cooley began building one of the most talented management teams in the industry (*the* best team, according to investor Warren Buffett).² Cooley foresaw that the banking industry would eventually undergo wrenching change, but he did not pretend to know what form that change would take. So instead of mapping out a strategy for change, he and chairman Ernie Arbuckle focused on “injecting an endless stream of talent” directly into the veins of the company. They hired outstanding people whenever and wherever they found them, often without any specific job in mind. “That’s how you build the future,” he said. “If I’m not smart enough to see the changes that are coming, they will. And they’ll be flexible enough to deal with them.”³

Cooley’s approach proved prescient. No one could predict all the changes that would be wrought by banking deregulation. Yet when these changes came, no bank handled those challenges better than Wells Fargo. At a time when its sector of the banking industry fell 59 percent behind the general stock market, Wells Fargo outperformed the market by over three times.⁴

Carl Reichardt, who became CEO in 1983, attributed the bank’s success largely to the people around him, most of whom he inherited from Cooley.⁵ As he listed members of the Wells Fargo executive team that had joined the company during the Cooley-Reichardt era, we were stunned. Nearly every person had gone on to become CEO of a major company:

Bill Aldinger became the CEO of Household Finance, Jack Grundhofer became CEO of U.S. Bancorp, Frank Newman became CEO of Bankers Trust, Richard Rosenberg became CEO of Bank of America, Bob Joss became CEO of Westpac Banking (one of the largest banks in Australia) and later became dean of the Graduate School of Business at Stanford University—not exactly your garden variety executive team! Arjay Miller, an active Wells Fargo board member for seventeen years, told us that the Wells Fargo team reminded him of the famed “Whiz Kids” recruited to Ford Motor Company in the late 1940s (of which Miller was a member, eventually becoming president of Ford).⁶ Wells Fargo’s approach was simple: You get the best people, you build them into the best managers in the industry, and you accept the fact that some of them will be recruited to become CEOs of other companies.⁷

Bank of America took a very different approach. While Dick Cooley systematically recruited the best people he could get his hands on, Bank of America, according to the book *Breaking the Bank*, followed something called the “weak generals, strong lieutenants” model.⁸ If you pick strong generals for key positions, their competitors will leave. But if you pick weak generals—placeholders, rather than highly capable executives—then the strong lieutenants are more likely to stick around.

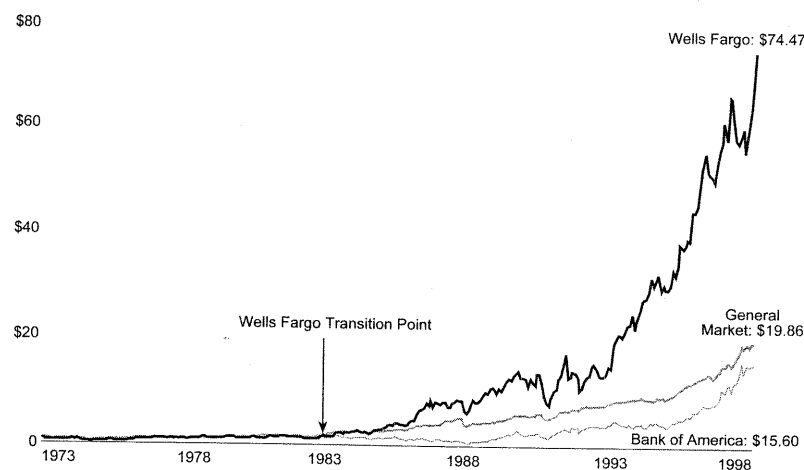
The weak generals model produced a climate very different at Bank of America than the one at Wells Fargo. Whereas the Wells Fargo crew acted as a strong team of equal partners, ferociously debating eyeball-to-eyeball in search of the best answers, the Bank of America weak generals would wait for directions from above. Sam Armacost, who inherited the weak generals model, described the management climate: “I came away quite distressed from my first couple of management meetings. Not only couldn’t I get conflict, I couldn’t even get comment. They were all waiting to see which way the wind blew.”⁹

A retired Bank of America executive described senior managers in the 1970s as “Plastic People” who’d been trained to quietly submit to the dictates of a domineering CEO.¹⁰ Later, after losing over \$1 billion in the mid-1980s, Bank of America recruited a gang of strong generals to turn the bank around. And where did it find those strong generals? From right across the street at Wells Fargo. In fact, Bank of America recruited so many Wells Fargo executives during its turnaround that people inside began to refer to themselves as “Wells of America.”¹¹ At that point, Bank of America began to climb upward again, but it was too little too late. From 1973 to 1998, while

Wells Fargo went from buildup to breakthrough results, Bank of America's cumulative stock returns didn't even keep pace with the general market.

WELLS FARGO VERSUS BANK OF AMERICA

Cumulative Value of \$1 Invested,
January 1, 1973 – January 1, 1998



Now, you might be thinking, "That's just good management—the idea of getting the right people around you. What's new about that?" On one level, we have to agree; it is just plain old-fashioned good management. But what stands out with such distinction in the good-to-great companies are two key points that made them quite different.

To be clear, the main point of this chapter is not just about assembling the right team—that's nothing new. The main point is to *first* get the right people on the bus (and the wrong people off the bus) *before* you figure out where to drive it. The second key point is the degree of *sheer rigor* needed in people decisions in order to take a company from good to great.

"First who" is a very simple idea to grasp, and a very difficult idea to *do*—and most don't do it well. It's easy to *talk about* paying attention to

people decisions, but how many executives have the discipline of David Maxwell, who held off on developing a strategy until he got the right people in place, *while the company was losing \$1 million every single business day* with \$56 billion of loans underwater? When Maxwell became CEO of Fannie Mae during its darkest days, the board desperately wanted to know how he was going to rescue the company. Despite the immense pressure to act, to do something dramatic, to seize the wheel and start driving, Maxwell focused first on getting the right people on the Fannie Mae management team. His first act was to interview all the officers. He sat them down and said, "Look, this is going to be a very hard challenge. I want you to think about how demanding this is going to be. If you don't think you're going to like it, that's fine. Nobody's going to hate you."¹²

Maxwell made it absolutely clear that there would only be seats for A players who were going to put forth an A+ effort, and if you weren't up for it, you had better get off the bus, and get off *now*.¹³ One executive who had just uprooted his life and career to join Fannie Mae came to Maxwell and said, "I listened to you very carefully, and I don't want to do this." He left and went back to where he came from.¹⁴ In all, fourteen of twenty-six executives left the company, replaced by some of the best, smartest, and hardest-working executives in the entire world of finance.¹⁵ The same standard applied up and down the Fannie Mae ranks as managers at every level increased the caliber of their teams and put immense peer pressure upon each other, creating high turnover at first, when some people just didn't pan out.¹⁶ "We had a saying, 'You can't fake it at Fannie Mae,'" said one executive team member. "Either you knew your stuff or you didn't, and if you didn't, you'd just blow out of here."¹⁷

Wells Fargo and Fannie Mae both illustrate the idea that "who" questions come before "what" questions—before vision, before strategy, before tactics, before organizational structure, before technology. Dick Cooley and David Maxwell both exemplified a classic Level 5 style when they said, "I don't know where we should take this company, but I do know that if I start with the right people, ask them the right questions, and engage them in vigorous debate, we will find a way to make this company great."

NOT A "GENIUS WITH A THOUSAND HELPERS"

In contrast to the good-to-great companies, which built deep and strong executive teams, many of the comparison companies followed a "genius

with a thousand helpers” model. In this model, the company is a platform for the talents of an extraordinary individual. In these cases, the towering genius, the primary driving force in the company’s success, is a great asset—as long as the genius sticks around. The geniuses seldom build great management teams, for the simple reason that they don’t need one, and often don’t want one. If you’re a genius, you don’t need a Wells Fargo-caliber management team of people who could run their own shows elsewhere. No, you just need an army of good soldiers who can help implement your great ideas. However, when the genius leaves, the helpers are often lost. Or, worse, they try to mimic their predecessor with bold, visionary moves (trying to act like a genius, without being a genius) that prove unsuccessful.

Eckerd Corporation suffered the liability of a leader who had an uncanny genius for figuring out “what” to do but little ability to assemble the right “who” on the executive team. Jack Eckerd, blessed with monumental personal energy (he campaigned for governor of Florida while running his company) and a genetic gift for market insight and shrewd deal making, acquired his way from two little stores in Wilmington, Delaware, to a drugstore empire of over a thousand stores spread across the southeastern United States. By the late 1970s, Eckerd’s revenues equaled Walgreens’, and it looked like Eckerd might triumph as the great company in the industry. But then Jack Eckerd left to pursue his passion for politics, running for senator and joining the Ford administration in Washington. Without his guiding genius, Eckerd’s company began a long decline, eventually being acquired by J. C. Penney.¹⁸

The contrast between Jack Eckerd and Cork Walgreen is striking. Whereas Jack Eckerd had a genius for picking the right stores to buy, Cork Walgreen had a genius for picking the right people to hire.¹⁹ Whereas Jack Eckerd had a gift for seeing which stores should go in what locations, Cork Walgreen had a gift for seeing which people should go in what seats. Whereas Jack Eckerd failed utterly at the single most important decision facing any executive—the selection of a successor—Cork Walgreen developed multiple outstanding candidates and selected a superstar successor, who may prove to be even better than Cork himself.²⁰ Whereas Jack Eckerd had no executive team, but instead a bunch of capable helpers assembled to assist the great genius, Cork Walgreen built the best executive team in the industry. Whereas the primary guidance mechanism for Eckerd Corporation’s strategy lay inside Jack Eckerd’s head, the primary guidance mechanism for Walgreens’ corporate

**LEVEL 5 +
MANAGEMENT TEAM**
(Good-to-Great Companies)

LEVEL 5 LEADER



FIRST WHO

Get the right people on the bus.
Build a superior executive team.



THEN WHAT

Once you have the right people
in place, figure out the best path
to greatness.

**A “GENIUS WITH A
THOUSAND HELPERS”**
(Comparison Companies)

LEVEL 4 LEADER



FIRST WHAT

Set a vision for where to drive
the bus. Develop a road map
for driving the bus.



THEN WHO

Enlist a crew of highly capable
“helpers” to make the vision
happen.

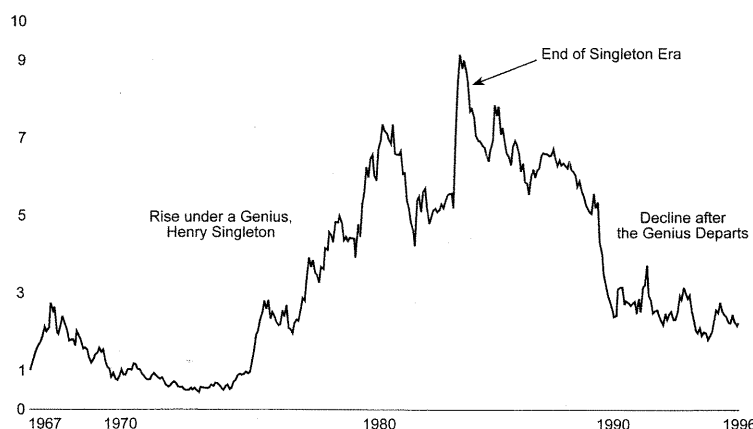
strategy lay in the group dialogue and shared insights of the talented executive team.

The “genius with a thousand helpers” model is particularly prevalent in the unsustained comparison companies. The most classic case comes from a man known as the Sphinx, Henry Singleton of Teledyne. Singleton grew up on a Texas ranch, with the childhood dream of becoming a great businessman in the model of the rugged individualist. Armed with a Ph.D. from MIT, he founded Teledyne.²¹ The name Teledyne derives from Greek and means “force applied at a distance”—an apt name, as the central force holding the far-flung empire together was Henry Singleton himself.

Through acquisitions, Singleton built the company from a small enterprise to number 293 on the Fortune 500 list in six years.²² Within ten years, he’d completed more than 100 acquisitions, eventually creating a far-flung enterprise with 130 profit centers in everything from exotic metals to insurance.²³ Amazingly, the whole system worked, with Singleton

TELEDYNE CORPORATION

A Classic "Genius with a Thousand Helpers"
Ratio of Cumulative Stock Returns to General Market,
January 1, 1967 – January 1, 1996



himself acting as the glue that connected all the moving parts together. At one point, he said, "I define my job as having the freedom to do what seems to me to be in the best interest of the company at any time."²⁴ A 1978 *Forbes* feature story maintained, "Singleton will win no awards for humility, but who can avoid standing in awe of his impressive record?" Singleton continued to run the company well into his seventies, with no serious thought given to succession. After all, why worry about succession when the very point of the whole thing is to serve as a platform to leverage the talents of your remarkable genius? "If there is a single weakness in this otherwise brilliant picture," the article continued, "it is this: Teledyne is not so much a system as it is the reflection of one man's singular discipline."²⁵

What a weakness it turned out to be. Once Singleton stepped away from day-to-day management in the mid-1980s, the far-flung empire began to crumble. From the end of 1986 until its merger with Allegheny in 1995, Teledyne's cumulative stock returns imploded, falling 66 percent behind the general stock market. Singleton achieved his childhood dream of becoming a great businessman, but he failed utterly at the task of building a great company.

IT'S WHO YOU PAY, NOT HOW YOU PAY THEM

We expected to find that changes in incentive systems, especially executive incentives, would be highly correlated with making the leap from good to great. With all the attention paid to executive compensation—the shift to stock options and the huge packages that have become commonplace—surely, we thought, the amount and structure of compensation must play a key role in going from good to great. How else do you get people to do the right things that create great results?

We were dead wrong in our expectations.

We found no systematic pattern linking executive compensation to the process of going from good to great. The evidence simply does not support the idea that the specific structure of executive compensation acts as a key lever in taking a company from good to great.

We spent weeks inputting compensation data from proxy statements and performed 112 separate analyses looking for patterns and correlations. We examined everything we could quantify for the top five officers—cash versus stock, long-term versus short-term incentives, salary versus bonus, and so forth. Some companies used stock extensively; others didn't. Some had high salaries; others didn't. Some made significant use of bonus incentives; others didn't. Most importantly, when we analyzed executive compensation patterns *relative to comparison companies*, we found no systematic differences on the use of stock (or not), high salaries (or not), bonus incentives (or not), or long-term compensation (or not). The only significant difference we found was that the good-to-great executives received slightly *less* total cash compensation ten years after the transition than their counterparts at the still-mediocre comparison companies!²⁶

Not that executive compensation is irrelevant. You have to be basically rational and reasonable (I doubt that Colman Mockler, David Maxwell, or Darwin Smith would have worked for free), and the good-to-great companies did spend time thinking about the issue. But once you've structured something that makes basic sense, executive compensation falls away as a distinguishing variable in moving an organization from good to great.

Why might that be? It is simply a manifestation of the “first who” principle: *It’s not how you compensate your executives, it’s which executives you have to compensate in the first place.* If you have the right executives on the bus, they will do everything within their power to build a great company, not because of what they will “get” for it, but because they simply cannot imagine settling for anything less. Their moral code requires building excellence for its own sake, and you’re no more likely to change that with a compensation package than you’re likely to affect whether they breathe. The good-to-great companies understood a simple truth: The right people will do the right things and deliver the best results they’re capable of, regardless of the incentive system.

Yes, compensation and incentives are important, but for very different reasons in good-to-great companies. The purpose of a compensation system should not be to get the right *behaviors* from the wrong people, but to get the right *people* on the bus in the first place, and to keep them there.

We were not able to look as rigorously at nonexecutive compensation; such data is not available in as systematic a format as proxy statements for top officers. Nonetheless, evidence from source documents and articles suggests that the same idea applies at all levels of an organization.²⁷

A particularly vivid example is Nucor. Nucor built its entire system on the idea that you can teach farmers how to make steel, but you can’t teach a farmer work ethic to people who don’t have it in the first place. So, instead of setting up mills in traditional steel towns like Pittsburgh and Gary, it located its plants in places like Crawfordsville, Indiana; Norfolk, Nebraska; and Plymouth, Utah—places full of real farmers who go to bed early, rise at dawn, and get right to work without fanfare. “Gotta milk the cows” and “Gonna plow the north forty before noon” translated easily into “Gotta roll some sheet steel” and “Gonna cast forty tons before lunch.” Nucor ejected people who did not share this work ethic, generating as high as 50 percent turnover in the first year of a plant, followed by very low turnover as the right people settled in for the long haul.²⁸

To attract and keep the best workers, Nucor paid its steelworkers more than any other steel company in the world. But it built its pay system around a high-pressure team-bonus mechanism, with over 50 percent of a

worker’s compensation tied directly to the productivity of his work team of twenty to forty people.²⁹ Nucor team members would usually show up for work thirty minutes early to arrange their tools and prepare to blast off the starting line the instant the shift gun fired.³⁰ “We have the hardest working steel workers in the world,” said one Nucor executive. “We hire five, work them like ten, and pay them like eight.”³¹

The Nucor system did not aim to turn lazy people into hard workers, but to create an environment where hardworking people would thrive and lazy workers would either jump or get thrown right off the bus. In one extreme case, workers chased a lazy teammate right out of the plant with an angle iron.³²

Nucor rejected the old adage that people are your most important asset. In a good-to-great transformation, people are not your most important asset. The *right* people are.

Nucor illustrates a key point. In determining “the right people,” the good-to-great companies placed greater weight on character attributes than on specific educational background, practical skills, specialized knowledge, or work experience. Not that specific knowledge or skills are unimportant, but they viewed these traits as more teachable (or at least learnable), whereas they believed dimensions like character, work ethic, basic intelligence, dedication to fulfilling commitments, and values are more ingrained. As Dave Nassef of Pitney Bowes put it:

I used to be in the Marines, and the Marines get a lot of credit for building people’s values. But that’s not the way it really works. The Marine Corps recruits people who share the corps’ values, then provides them with the training required to accomplish the organization’s mission. We look at it the same way at Pitney Bowes. We have more people who want to do the right thing than most companies. We don’t just look at experience. We want to know: Who are they? Why are they? We find out who they are by asking them why they made decisions in their life. The answers to these questions give us insight into their core values.³³

One good-to-great executive said that his best hiring decisions often came from people with no industry or business experience. In one case,

he hired a manager who'd been captured twice during the Second World War and escaped both times. "I thought that anyone who could do that shouldn't have trouble with business."³⁴

RIGOROUS, NOT RUTHLESS

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.

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.

In 1986, Wells Fargo acquired Crocker Bank and planned to shed gobs of excess cost in the consolidation. There's nothing unusual about that—every bank merger in the era of deregulation aimed to cut excess cost out of a bloated and protected industry. However, what *was* unusual about the Wells-Crocker consolidation is the way Wells integrated management or, to be more accurate, the way it didn't even try to integrate most Crocker management into the Wells culture.

The Wells Fargo team concluded right up front that the vast majority of Crocker managers would be the wrong people on the bus. Crocker people had long been steeped in the traditions and perks of old-style banker culture, complete with a marbled executive dining room with its own chef and \$500,000 worth of china.³⁵ Quite a contrast to the spartan culture at Wells Fargo, where management ate food prepared by a college dormitory food service.³⁶ Wells Fargo made it clear to the Crocker managers: "Look, this is not a merger of equals; it's an acquisition; we bought your branches and your customers; we didn't acquire *you*." Wells Fargo terminated most of the Crocker management team—1,600 Crocker managers gone on day one—including nearly all the top executives.³⁷

A critic might say, "That's just the Wells people protecting their own." But consider the following fact: Wells Fargo also sent some of its *own* managers packing in cases where the Crocker managers were judged as better qualified. When it came to management, the Wells Fargo stan-

dards were ferocious and consistent. Like a professional sports team, only the best made the annual cut, regardless of position or tenure. Summed up one Wells Fargo executive: "The only way to deliver to the people who are achieving is to not burden them with the people who are not achieving."³⁸

On the surface, this looks ruthless. But the evidence suggests that the average Crocker manager was just not the same caliber as the average Wells manager and would have failed in the Wells Fargo performance culture. If they weren't going to make it on the bus in the long term, why let them suffer in the short term? One senior Wells Fargo executive told us: "We all agreed this was an acquisition, not a merger, and there's no sense beating around the bush, not being straightforward with people. We decided it would be best to simply do it on day one. We planned our efforts so that we could say, right up front, 'Sorry, we don't see a role for you,' or 'Yes, we do see a role; you have a job, so stop worrying about it.' We were not going to subject our culture to a death by a thousand cuts." ³⁹

To let people languish in uncertainty for months or years, stealing precious time in their lives that they could use to move on to something else, when in the end they aren't going to make it anyway—that would be ruthless. To deal with it right up front and let people get on with their lives—that is *rigorous*.

Not that the Crocker acquisition is easy to swallow. It's never pleasant to see thousands of people lose their jobs, but the era of bank deregulation saw hundreds of thousands of lost jobs. Given that, it's interesting to note two points. First, Wells Fargo did fewer big layoffs than its comparison company, Bank of America.⁴⁰ Second, upper management, including some senior Wells Fargo upper management, suffered more on a percentage basis than lower-level workers in the consolidation.⁴¹ Rigor in a good-to-great company applies first at the top, focused on those who hold the largest burden of responsibility.

To be rigorous in people decisions means first becoming rigorous about *top management* people decisions. Indeed, I fear that people might use "first who rigor" as an excuse for mindlessly chopping out people to improve performance. "It's hard to do, but we've got to be rigorous," I can hear them say. And I cringe. For not only will a lot of hardworking, good people get hurt in the process, but the evidence suggests that such tactics are contrary to producing sustained great results. The good-to-great companies rarely used head-count lopping as a tactic and almost never used it

as a primary strategy. Even in the Wells Fargo case, the company used layoffs *half* as much as Bank of America during the transition era.

Six of the eleven good-to-great companies recorded zero layoffs from ten years before the breakthrough date all the way through 1998, and four others reported only one or two layoffs.

In contrast, we found layoffs used five times more frequently in the comparison companies than in the good-to-great companies. Some of the comparison companies had an almost chronic addiction to layoffs and restructurings.⁴²

It would be a mistake—a tragic mistake, indeed—to think that the way you ignite a transition from good to great is by wantonly swinging the ax on vast numbers of hardworking people. Endless restructuring and mindless hacking were never part of the good-to-great model.

How to Be Rigorous

We've extracted three practical disciplines from the research for being rigorous rather than ruthless.

Practical Discipline #1: When in doubt, don't hire—keep looking.

One of the immutable laws of management physics is "Packard's Law." (So called because we first learned it in a previous research project from David Packard, cofounder of the Hewlett-Packard Company.) It goes like this: 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 simply will not—indeed cannot—build a great company.

Those who build great companies understand that the ultimate throttle on growth for any great company is not markets, or technology, or competition, or products. It is one thing above all others: the ability to get and keep enough of the right people.

The management team at Circuit City instinctively understood Packard's Law. Driving around Santa Barbara the day after Christmas a few years ago, I noticed something different about the Circuit City store. Other stores had signs and banners reaching out to customers: "Always the Best Prices" or "Great After-Holiday Deals" or "Best After-Christmas Selection," and so forth. But not Circuit City. It had a banner that read: "Always Looking for Great People."

The sign reminded me of our interview with Walter Bruckart, vice president during the good-to-great years. When asked to name the top five factors that led to the transition from mediocrity to excellence, Bruckart said, "One would be people. Two would be people. Three would be people. Four would be people. And five would be people. A huge part of our transition can be attributed to our discipline in picking the right people." Bruckart then recalled a conversation with CEO Alan Wurtzel during a growth spurt at Circuit City: "'Alan, I'm really wearing down trying to find the exact right person to fill this position or that position. At what point do I compromise?' Without hesitation, Alan said, 'You don't compromise. We find another way to get through until we find the right people.'" ⁴³

One of the key contrasts between Alan Wurtzel at Circuit City and Sidney Cooper at Silo is that Wurtzel spent the bulk of his time in the early years focused on getting the right people on the bus, whereas Cooper spent 80 percent of his time focusing on the right stores to buy.⁴⁴ Wurtzel's first goal was to build the best, most professional management team in the industry; Cooper's first goal was simply to grow as fast as possible. Circuit City put tremendous emphasis on getting the right people all up and down the line, from delivery drivers to vice presidents; Silo developed a reputation for not being able to do the basics, like making home deliveries without damaging the products.⁴⁵ According to Circuit City's Dan Rexinger, "We made the best home delivery drivers in the industry. We told them, 'You are the last contact the customer has with Circuit City. We are going to supply you with uniforms. We will require that you shave, that you don't have B.O. You're going to be professional people.' The change in the way we handled customers when making a delivery was absolutely incredible. We would get thank-you notes back on how courteous the drivers were."⁴⁶ Five years into Wurtzel's tenure, Circuit City and Silo had essentially the same business strategy (the same answers to the "what" questions), yet Circuit City took off like a rocket, beating the general stock market 18.5 to 1 in the fifteen years after its transition, while Silo

bumped along until it was finally acquired by a foreign company.⁴⁷ Same strategy, different people, different results.

Practical Discipline #2: 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. We've all experienced or observed the following scenario. We have a wrong person on the bus and we know it. Yet we wait, we delay, we try alternatives, we give a third and fourth chance, we hope that the situation will improve, we invest time in trying to properly manage the person, we build little systems to compensate for his shortcomings, and so forth. But the situation doesn't improve. When we go home, we find our energy diverted by thinking (or talking to our spouses) about that person. Worse, all the time and energy we spend on that one person siphons energy away from developing and working with all the right people. We continue to stumble along until the person leaves on his own (to our great sense of relief) or we finally act (also to our great sense of relief). Meanwhile, our best people wonder, "What took you so long?"

Letting the wrong people hang around is unfair to all the right people, as they inevitably find themselves compensating for the inadequacies of the wrong people. Worse, it can drive away the best people. Strong performers are intrinsically motivated by performance, and when they see their efforts impeded by carrying extra weight, they eventually become frustrated.

Waiting too long before acting is equally unfair to the people who need to get off the bus. For every minute you allow a person to continue holding a seat when you know that person will not make it in the end, you're stealing a portion of his life, time that he could spend finding a better place where he could flourish. Indeed, if we're honest with ourselves, the reason we wait too long often has less to do with concern for that person and more to do with our own convenience. He's doing an okay job and it would be a huge hassle to replace him, so we avoid the issue. Or we find the whole process of dealing with the issue to be stressful and distasteful. So, to save ourselves stress and discomfort, we wait. And wait. And wait. Meanwhile, all the best people are still wondering, "When are they going to do something about this? How long is this going to go on?"

Using data from *Moody's Company Information Reports*, we were able to examine the pattern of turnover in the top management levels. We found no difference in the *amount* of "churn" (turnover within a period of time) between the good-to-great and the comparison companies. But we did find differences in the *pattern* of churn.⁴⁸

The good-to-great companies showed the following bipolar pattern at the top management level: People either stayed on the bus for a long time or got off the bus in a hurry. In other words, the good-to-great companies did not churn more, they churned *better*.

The good-to-great leaders did not pursue an expedient "try a lot of people and keep who works" model of management. Instead, they adopted the following approach: "Let's take the time to make rigorous A+ selections right up front. If we get it right, we'll do everything we can to try to keep them on board for a long time. If we make a mistake, then we'll confront that fact so that we can get on with our work and they can get on with their lives."

The good-to-great leaders, however, would not rush to judgment. Often, they invested substantial effort in determining whether they had someone in the wrong seat before concluding that they had the wrong person on the bus entirely. When Colman Mockler became CEO of Gillette, he didn't go on a rampage, wantonly throwing people out the windows of a moving bus. Instead, he spent fully 55 percent of his time during his first two years in office jiggering around with the management team, changing or moving thirty-eight of the top fifty people. Said Mockler, "Every minute devoted to putting the proper person in the proper slot is worth weeks of time later."⁴⁹ Similarly, Alan Wurtzel of Circuit City sent us a letter after reading an early draft of this chapter, wherein he commented:

Your point about "getting the right people on the bus" as compared to other companies is dead on. There is one corollary that is also important. I spent a lot of time thinking and talking about who sits where on the bus. I called it "putting square pegs in square holes and round pegs in round holes." . . . Instead of firing honest and able people who are not performing well, it is important to try to move them once or even two or three times to other positions where they might blossom.

It might take time to know for certain if someone is simply in the wrong seat or whether he needs to get off the bus altogether. Nonetheless, when the good-to-great leaders knew they had to make a people change, they would *act*.

But how do you *know* when you know? Two key questions can help. First, if it were a hiring decision (rather than a “should this person get off the bus?” decision), would you hire the person again? Second, if the person came to tell you that he or she is leaving to pursue an exciting new opportunity, would you feel terribly disappointed or secretly relieved?

Practical Discipline #3: Put your best people on your biggest opportunities, not your biggest problems.

In the early 1960s, R. J. Reynolds and Philip Morris derived the vast majority of their revenues from the domestic arena. R. J. Reynolds’ approach to international business was, “If somebody out there in the world wants a Camel, let them call us.”⁵⁰ Joe Cullman at Philip Morris had a different view. He identified international markets as the single best opportunity for long-term growth, despite the fact that the company derived less than 1 percent of its revenues from overseas.

Cullman puzzled over the best “strategy” for developing international operations and eventually came up with a brilliant answer: It was not a “what” answer, but a “who.” He pulled his number one executive, George Weissman, off the primary domestic business, and put him in charge of international. At the time, international amounted to almost nothing—a tiny export department, a struggling investment in Venezuela, another in Australia, and a tiny operation in Canada. “When Joe put George in charge of international, a lot of people wondered what George had done wrong,” quipped one of Weissman’s colleagues.⁵¹ “I didn’t know whether I was being thrown sideways, downstairs or out the window,” said Weissman. “Here I was running 99% of the company and the next day I’d be running 1% or less.”⁵²

Yet, as *Forbes* magazine observed twenty years later, Cullman’s decision to move Weissman to the smallest part of the business was a stroke of genius. Urbane and sophisticated, Weissman was the perfect person to develop markets like Europe, and he built international into the largest and fastest-growing part of the company. In fact, under Weissman’s stew-

ardship, Marlboro became the best-selling cigarette *in the world* three years *before* it became number one in the United States.⁵³

The RJR versus Philip Morris case illustrates a common pattern. The good-to-great companies made a habit of putting their best people on their best opportunities, not their biggest problems. The comparison companies had a penchant for doing just the opposite, failing to grasp the fact that managing your problems can only make you good, whereas building your opportunities is the only way to become great.

There is an important corollary to this discipline: *When you decide to sell off your problems, don't sell off your best people.* This is one of those little secrets of change. If you create a place where the best people always have a seat on the bus, they're more likely to support changes in direction.

For instance, when Kimberly-Clark sold the mills, Darwin Smith made it clear: The company might be getting rid of the paper business, *but it would keep its best people*. “Many of our people had come up through the paper business. Then, all of a sudden, the crown jewels are being sold off and they’re asking, ‘What is my future?’” explained Dick Auchter. “And Darwin would say, ‘We need all the talented managers we can get. We keep them.’”⁵⁴ Despite the fact that they had little or no consumer experience, Smith moved all the best paper people to the consumer business.

We interviewed Dick Appert, a senior executive who spent the majority of his career in the papermaking division at Kimberly-Clark, the same division sold off to create funds for the company’s big move into consumer products. He talked with pride and excitement about the transformation of Kimberly-Clark, how it had the guts to sell the paper mills, how it had the foresight to exit the paper business and throw the proceeds into the consumer business, and how it had taken on Procter & Gamble. “I never had any argument with our decision to dissolve the paper division of the company,” he said. “We did get rid of the paper mills at that time, and I was in absolute agreement with that.”⁵⁵ Stop and think about that for a moment. The right people want to be part of building something great, and Dick Appert saw that Kimberly-Clark could become great by selling the part of the company where he had spent most of his working life.

The Philip Morris and Kimberly-Clark cases illustrate a final point

about “the right people.” We noticed a Level 5 atmosphere at the top executive level of every good-to-great company, especially during the key transition years. Not that every executive on the team became a fully evolved Level 5 leader to the same degree as Darwin Smith or Colman Mockler, but each core member of the team transformed personal ambition into ambition for the company. This suggests that the team members had Level 5 potential—or at least they were capable of operating in a manner consistent with the Level 5 leadership style.

You might be wondering, “What’s the difference between a Level 5 executive team member and just being a good soldier?” A Level 5 executive team member does not blindly acquiesce to authority and is a strong leader in her own right, so driven and talented that she builds her arena into one of the very best in the world. Yet each team member must also have the ability to meld that strength into doing whatever it takes to make the company great.

Indeed, one of the crucial elements in taking a company from good to great is somewhat paradoxical. You need executives, on the one hand, who argue and debate—sometimes violently—in pursuit of the best answers, yet, on the other hand, who unify fully behind a decision, regardless of parochial interests.

An article on Philip Morris said of the Cullman era, “These guys never agreed on anything and they would argue about everything, and they would kill each other and involve everyone, high and low, talented people. But when they had to make a decision, the decision would emerge. This made Philip Morris.”⁵⁶ No matter how much they argued, said a Philip Morris executive, “they were always in search of the best answer. In the end, everybody stood behind the decision. All of the debates were for the common good of the company, not your own interests.”⁵⁷

FIRST WHO, GREAT COMPANIES, AND A GREAT LIFE

Whenever I teach the good-to-great findings, someone almost always raises the issue of the personal cost in making a transition from good to

great. In other words, is it possible to build a great company and also build a great life?

Yes.

The secret to doing so lies right in this chapter.

I spent a few short days with a senior Gillette executive and his wife at an executive conference in Hong Kong. During the course of our conversations, I asked them if they thought Colman Mockler, the CEO most responsible for Gillette’s transition from good to great, had a great life. Colman’s life revolved around three great loves, they told me: his family, Harvard, and Gillette. Even during the darkest and most intense times of the takeover crises of the 1980s and despite the increasingly global nature of Gillette’s business, Mockler maintained remarkable balance in his life. He did not significantly reduce the amount of time he spent with his family, rarely working evenings or weekends. He maintained his disciplined worship practices. He continued his active work on the governing board of Harvard College.⁵⁸

When I asked how Mockler accomplished all of this, the executive said, “Oh, it really wasn’t that hard for him. He was so good at assembling the right people around him, and putting the right people in the right slots, that he just didn’t need to be there all hours of the day and night. That was Colman’s whole secret to success and balance.” The executive went on to explain that he was just as likely to meet Mockler in the hardware store as at the office. “He really enjoyed puttering around the house, fixing things up. He always seemed to find time to relax that way.” Then the executive’s wife added, “When Colman died and we all went to the funeral, I looked around and realized how much love was in the room. This was a man who spent nearly all his waking hours with people who loved him, who loved what they were doing, and who loved one another—at work, at home, in his charitable work, wherever.”

And the statement rang a bell for me, as there was something about the good-to-great executive teams that I couldn’t quite describe, but that clearly set them apart. In wrapping up our interview with George Weissman of Philip Morris, I commented, “When you talk about your time at the company, it’s as if you are describing a love affair.” He chuckled and said, “Yes. Other than my marriage, it was *the* passionate love affair of my life. I don’t think many people would understand what I’m talking about, but I suspect my colleagues would.” Weissman and many of his executive colleagues kept offices at Philip Morris, coming in on a regu-

lar basis, long after retirement. A corridor at the Philip Morris world headquarters is called “the hall of the wizards of was.”⁵⁹ It’s the corridor where Weissman, Cullman, Maxwell, and others continue to come into the office, in large part because they simply enjoy spending time together. Similarly, Dick Appert of Kimberly-Clark said in his interview, “I never had anyone in Kimberly-Clark in all my forty-one years say anything unkind to me. I thank God the day I was hired because I’ve been associated with wonderful people. Good, good people who respected and admired one another.”⁶⁰

Members of the good-to-great teams tended to become and remain friends for life. In many cases, they are still in close contact with each other years or decades after working together. It was striking to hear them talk about the transition era, for no matter how dark the days or how big the tasks, these people had fun! They enjoyed each other’s company and actually looked forward to meetings. A number of the executives characterized their years on the good-to-great teams as the high point of their lives. Their experiences went beyond just mutual respect (which they certainly had), to lasting comradeship.

Adherence to the idea of “first who” might be the closest link between a great company and a great life. For no matter what we achieve, if we don’t spend the vast majority of our time with people we love and respect, we cannot possibly have a great life. But if we spend the vast majority of our time with people we love and respect—people we really enjoy being on the bus with and who will never disappoint us—then we will almost certainly have a great life, no matter where the bus goes. The people we interviewed from the good-to-great companies clearly loved what they did, largely because they loved who they did it with.

CHAPTER SUMMARY

FIRST WHO . . . THEN WHAT

KEY POINTS

- The good-to-great leaders began the transformation by first getting the right people on the bus (and the wrong people off the bus) and then figured out where to drive it.
- The key point of this chapter is *not* just the idea of getting the right people on the team. The key point is that “who” questions come before “what” decisions—before vision, before strategy, before organization structure, before tactics. *First who, then what*—as a rigorous discipline, consistently applied.
- The comparison companies frequently followed the “genius with a thousand helpers” model—a genius leader who sets a vision and then enlists a crew of highly capable “helpers” to make the vision happen. This model fails when the genius departs.
- The good-to-great leaders were rigorous, not ruthless, in people decisions. They did not rely on layoffs and restructuring as a primary strategy for improving performance. The comparison companies used layoffs to a much greater extent.
- We uncovered three practical disciplines for being rigorous in people decisions:
 1. When in doubt, don’t hire—keep looking. (*Corollary*: A company should limit its growth based on its ability to attract enough of the right people.)
 2. When you know you need to make a people change, act. (*Corollary*: First be sure you don’t simply have someone in the wrong seat.)
 3. Put your best people on your biggest opportunities, not your biggest problems. (*Corollary*: If you sell off your problems, don’t sell off your best people.)
- Good-to-great management teams consist of people who debate vigorously in search of the best answers, yet who unify behind decisions, regardless of parochial interests.

UNEXPECTED FINDINGS

- We found no systematic pattern linking executive compensation to the shift from good to great. The purpose of compensation is not to “motivate” the right behaviors from the wrong people, but to get and keep the right people in the first place.
- The old adage “People are your most important asset” is wrong. People are not your most important asset. The *right* people are.
- Whether someone is the “right person” has more to do with character traits and innate capabilities than with specific knowledge, background, or skills.