

Good to Great: Lessons for the Social Sector

When GOOD TO GREAT: Why Some Companies Make the Leap ... and Others Don't was published by HarperBusiness in 2001 to international acclaim, both publisher and author Jim Collins were intrigued to discover that a significant number of the book's purchasers and readers came from the nonprofit sector.

And while somewhat surprising initially, according to Collins, this phenomenon was both welcome and appropriate. Indeed, he said in an address to the Bridgestar community, "If all we have is great companies, then we will merely have a prosperous country.

"But a prosperous country is not necessarily a great nation. A great nation is also made up of great schools, orchestras, police departments, religious institutions ..." This insight, he said, has inspired him to articulate the ways in which nonprofit organizations, too, can make the leap from good to great.

Nonprofits can become great organizations, Collins said, but the challenges are more complex than for private sector companies. The reasons: first, it can be more difficult to run a nonprofit organization than a corporation, because there is no single agreed-upon measure of success for a nonprofit, whereas it is easy to measure the success of a private sector company merely by the profit it generates.

Second, much of the funding available to nonprofits supports specific programs, not organizations. Additionally, in contrast to the private sector, where successful companies attract more capital, very successful nonprofit organizations can actually drive funding to less successful organizations, because of the perception that the lesser performers need more help.

Collins asserted that the country has become addicted to the concept of leadership; however, his research shows that greatness is not necessarily the result of charismatic leadership but of what Good to Great calls Level 5 Leadership. Collins was particularly critical of charismatic leaders, noting that in his research the leaders of truly great organizations were "humble, with stoic will ... ambitious first and foremost for the cause or the work, and willing to do anything to make [it] come out best. They don't flinch." He noted a negative correlation between charismatic leaders and great organizations, going on to explain that organizations dependent on charismatic leaders often can't be sustained, particularly if the leader leaves, while executives who seemingly had a "charisma bypass" must get things done on the basis of fact and logical arguments — and their organizations are more likely to prevail over time. This does not mean that charismatic leaders are doomed to failure in building enduring greatness — indeed, leaders like Sam Walton and Thomas J. Watson Sr. did overcome their charisma to build organizations

Boston

535 Boylston St., 10th Floor

Boston, MA 02116

P 617 572-2833

F 617 572-2834

New York

3 Times Sq., 25th Floor

New York, NY 10036

P 646 562-8900

F 646 562-8901

San Francisco

465 California St., 11th Floor

San Francisco, CA 94104

P 415 627-1100

F 415 627-4575

that transcended their personal presence — but, according to Collins' research, those afflicted with charisma need to understand its limitations and deliberately compensate for its liabilities.

Moreover, he said, when charismatic leaders are wrong — and they can be wrong — the results are disastrous. (The solution for leaders blessed with charisma, Collins said, includes being surrounded with people who are not afraid to question ideas, concepts and beliefs.)

Rather than depending on charismatic leaders, Collins believes that nonprofit organizations can become great by following a four-step process. Disciplined people: First who, then what. Many organizations say that people are their most important asset. That's not exactly accurate, says Collins. The right people are organizations' most important asset. Nonprofits need to be rigorous, not ruthless, in determining who should be in their organizations, and in which seats — and in nonprofits this also applies to volunteers. "Even when working with volunteers, nonprofits need to be disciplined in assembling their organizations ... when the right people are 'on the bus,' organizations can figure out the best path to greatness."

While they can't usually offer incentives and perks to the extent that for-profit companies can, according to Collins, the good news for nonprofits is that incentives don't work and are not tied to organizational greatness; "intrinsic motivation and discipline matter more."

Disciplined thought:

Live the Stockdale paradox and develop your hedgehog concept. Citing a lesson learned by Admiral James Stockdale while in captivity during the Vietnam War, Collins cautioned that organizations must never confuse absolute faith with the ability to confront brutal truths. With this in mind, he said, organizations must develop a defining concept, or hedgehog, by determining what its people are most passionate about, by what it can do best in the world, and by the level of supporting resources at its disposal. He also urged patience, noting that it can take four to five years, in an iterative process, to define the hedgehog, and even longer at organizations constrained by internal traditions or policies such as tenure. Collins went on to describe two types of hedgehogs, one involving content and the other process, citing Walgreens as a "content hedgehog" because it focused intently on one narrow form of content — the best most convenient drugstores — and General Electric as a "process hedgehog," because the company excels at an intangible, developing executive talent, which is deployed through a wide range of content.

Measuring the success of a business hedgehog is fairly clear-cut, he observed: the metric is return on invested capital. In the nonprofit world, however, every domain and sub-segment — organization,

program, and even project — may have a different economic model; hence, the challenge is even greater.

Disciplined action:

The flywheel, not the doom loop. Great organizations gather momentum over time through their persistent focus and ability to coalesce resources – the flywheel – while their reactive colleagues grasp at straws, falling into a doom loop. Great organizations achieve a culture of discipline in which the entire team focuses on the hedgehog. With this freedom in context, people do not require traditional management. “The moment you feel you need to manage someone, you’ve made a mistake,” Collins said, explaining that discipline doesn’t mean to “do more,” but to be able to say no.

Efficient capital markets fuel the corporate flywheel, enabling successful companies’ growth and expansion. Ironically, nonprofit organizations have a more difficult time attracting capital for operations, and programs tend to be funded for limited tenures. In fact, he observed, the more successful and effective the organization and its programs, the more likely funders are to move on to support other programs.

Building greatness to last:

Preserve the core values and stimulate progress. Organizations need to preserve their core ideology, while simultaneously stimulating progress and change in everything that is not part of the core ideology, such as cultural and operating practices, and specific goals and strategies. Here Collins also discussed the “clock building versus time-telling” concept from his prior best-seller, *Built to Last*. While clock-builders focus on the processes that will improve their organizations over time, he explained, time-tellers emphasize what they need to do in the shorter term.

In for-profit organizations, what must be changed is comparatively easy to pinpoint based on metrics. Nonprofit organizations, however, are blessed but also challenged by their passion for core values which, Collins said, is “hard to extract from practices.” The secret to creating sustained greatness is knowing what shouldn’t be changed — and changing everything else. Citing the Girl Scouts, Collins lauded a new leader who recognized that while the organization’s values were strong, the practices being employed to develop girls into strong women — defined as housewives — were outdated.

Finally, he observed, nonprofit funding favors time-telling; success in the development arena can even reduce the prospect of broader support.

In conclusion, Collins acknowledged his own challenges in making sense of the subtleties inherent to achieving nonprofit excellence. Responding to a question from the audience, he said, “I am struck by the comment that much of the work of nonprofits is not readily visible to the public. Organizations can be great, but the greatness is not necessarily obvious to all observers.”

Bridgestar (www.bridgestar.org), an initiative of the Bridgespan Group, provides a nonprofit management job board, content, and tools designed to help nonprofit organizations build strong leadership teams and individuals pursue career paths as nonprofit leaders.