

# No Risk, No Reward

How boldness, discipline and the flywheel push good to great

For more than a decade Jim Collins, author of *Built to Last* and *Good to Great*, has been a student and teacher of successful companies, studying and explaining how they grow, attain superior performance and go on to greatness.

He has advised senior executives and CEOs at corporations that include Starbucks, Merck, Patagonia, American General and W.L. Gore. Collins invests significant energy in large-scale research projects — often five or more years in duration — to develop fundamental insights about successful businesses. Here, he speaks with Smooth Jazz's leading alchemist, veteran broadcaster Frank Cody, whose record of accomplishment is one of continual transformation from good to great.

**FC:** *The media, including the record industry, radio, television and film, particularly in times of fear, has a tendency to replicate its past successes in the belief that is the safest way to satisfy corporate expectations. In your book you identify what it takes to go from good to great. Your work isn't based on vague ideas, but on research beginning in 1996 that studied companies that have grown from good to great. How did you design the study?*

**JC:** Once I had the question, the key was the desire to answer it and find truth with a small "t." A lot of people have a theory to prove or, even worse, to sell. They assemble data to support their theory. We weren't invested in the outcome, only in trying to build a theory from good, rigorous scientific data. I'm agnostic as to what the answers might ultimately be. I'm human and, therefore, have biases, so I

needed special people on the research team, since it was a question of truth rather than what I believe. I needed people loyal, first and foremost, to the evidence, not to me.

I searched for people with four basic characteristics: They had to be smart; curious; willing to death march, which means doing huge amounts of work perfectly in short periods of time and enjoying it; and they had to be genetically encoded to be irreverent. This was really crucial, because not everyone is irreverent enough to be uninfluenced by me, the team leader.

One person who wanted to join the team started the interview by putting a big, shiny apple on the table. He said, "I hope that this is the beginning of a student-teacher relationship." I told him that never in a million years would we hire him for the research team. He asked, "Was it something I said?" I told him I didn't think he was irreverent. He answered, "I could learn to be irreverent, if that's what you would like."

**FC:** *You write that, to go from good to great, you must first get the right people on the bus and all of the wrong people off the bus. Then you must get the right people in the right seats, and then you figure out where to drive it. We hear platitudes all the time about how people are our most important asset, but you point out that it's not*

*people who are the most important asset, it's the right people.*

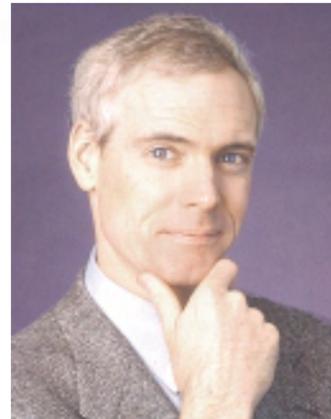
**JC:** Disciplined people engage in disciplined thought, then take disciplined action. In broad outline, those are the three basic stages, in that order, of taking something from good to great. It starts with remarkable people, a special breed. There's no question



Frank Cody

his plan of action until he knew who he was going to do things with. To have that discipline when you're losing a million dollars every day is remarkable.

**FC:** *With consolidation occurring in every aspect of entertainment, especially music and radio, and new media emerging, there's a tendency to impose dramatic change very quickly.*



Jim Collins

built up much momentum, but the key is that these people kept pushing on the flywheel, turn upon turn upon turn. Soon they'd go four to eight turns, eight to 16, 16 to 32, 32 to 64, and then, at some point — bang! — a million RPMs. If you came back and asked them which one big push made it happen, they wouldn't be able to answer, because it was all the pushes, one on top of the other.

This is something that happens in various walks of life — a breakthrough that has been long in coming with years of training or discipline. It looks like it happened overnight, but it didn't. It just finally showed up on the radar screen.

Companies that have a single, great hit tend not to last. You can produce some results with something dramatic one time, but it doesn't have the sustainable power that turning the flywheel does.

**FC:** *What about the current environment of risk-aversion? Can major gains take place without taking risks? How can the leader of a company instill the vision that risk is necessary, yet provide an environment where the team can feel comfortable? It seems that when fear settles in, people become paralyzed.*

**JC:** When we looked inside the good-to-great companies, half were in complete crisis at the time of

**"When a company had the right people, it would go to almost any length to keep them."**

Jim Collins

their transition, so there was a lot of fear or angst heading into it. The other half could have kept on doing what they were doing. What was so striking was that, no matter how urgent the need for change, the same pattern applied. Whether in crisis or just bumping along, people take the same actions that lead from good to great.

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## ... Since September 11 ...

We have been forced to examine our lives and how we choose to live them. We've lost some of our innocence and certainly had our confidence shaken, but most of our reactions have been quite positive. In the weeks and months after Sept. 11 the churches have been full, and flag-waving patriotism is evident everywhere. Celebrities, actors and musicians have staged incredible charitable events because of their basic human desire to try to help, to "do something." The better side of human nature has shown its face in selfless acts, large and small. • But even more important, people seem to be reaching out to each other, expressing their feelings and trying to connect in deeper, more meaningful ways than before. Many are taking a hard look at what is truly important in their lives and taking steps to shift their priorities to reflect those things. I see these changes as positive and powerful, and I believe that they will make us better people. As Mahatma Gandhi said, "We must be the change we wish to see in the world."

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Let me tie that into risk. Companies switched from good to great because they reached certain understandings by confronting brutal facts. And when you confront brutal facts, you realize there are times when every option open to you presents risk. Sober, quiet attention to the facts helped those companies take very significant steps. I wrote about Kimberly Clark's Darwin Smith, who is a great example of a risk-taker.

**FC:** Not a famous name in business.

**JC:** No, but one on my Ten Best CEOs of the Century list, without question. He's right in there with Sam Walton and Henry Ford.

**FC:** We have to remember that his company gave us Kleenex.

**JC:** Darwin came to the conclusion that Kimberly Clark would remain mediocre if it stayed a traditional paper company making white paper to write and print on. He realized that the only way to be great was to throw Kimberly Clark into the consumer business with products like Kleenex and disposable diapers. He made a really bold move, which was to sell all the mills — the core of the company, 60%-70% of its business — and take all of the money and throw it into a committed battle against Procter & Gamble and Scott Paper in an industry that wasn't his company's primary business.

That was bold! Darwin understood that if he didn't do that, there was no way his company would beat P&G. It was risky, but the only path to creating something great. One thing that holds people back from creating something great is that they are afraid to really focus their efforts on a couple of key things, because they worry what will happen if it doesn't work. People at the good-to-great companies understood that, without that focus, you're going to be good at a number of things, rather than great at one.

**FC:** You write, "Good is the enemy of great."

**JC:** We have a cancer in modern American society that relates to risk: the rise of people who want entrepreneurial rewards without taking entrepreneurial risks. If it persists, it will devastate our economic system. We saw it in the dot-com bubble, with people who thought that they deserved to be wealthy. We saw it in places like Enron, where a few people reaped tens or hundreds of millions of dollars in payment, but not the people who took all the risks. It was others, shareholders like my grandmother and employees who had their money in 401Ks at Enron, who took the risks.

In our society, if we continue to separate out the idea that some want all the entrepreneurial re-

**"Much of what it takes to make something the best is the integrity to worry about the back of the statue, even though no one will see it."**

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wards — all the upside — but aren't willing to take a risk for it, we'll fundamentally erode our system, because it is that wonderful interplay between risk and creation that is so much the engine that makes our economy, at its very best, work.

**FC:** A Gallup study examined the hierarchy of needs for people working for an organization. Some companies believe that it's how much they pay employees that matters most. But, in fact, money does not top their list. Employees care whether they have the

resources they need to do their work right. They want an opportunity to do what they do best. They want to know what is expected of them, to receive weekly praise for good work and regular feedback. It's important to them to feel cared about as a person, that one's opinion counts, one's development is encouraged. A company should make one feel that his or her job is important. People want to learn and grow.

**Consolidation has produced sweeping layoffs. What role do staff cuts play in greatness? Do companies become great through reducing the work force?**

**JC:** We looked at numbers of layoffs and changes in head-counts over a 30-year time span across all of the companies in the study. Over 30 years, 90% of the companies made no more than two layoffs, and most of them did zero. Only one made five staff cuts; it was in banking, an industry going through deregulation and a lot of consolidation at the time. Cutting costs doesn't address the three fundamental questions that must be answered to build a model for greatness: What can we do that we are really passionate about? What can we be the absolute best in the world at? What can best drive, in a positive way, our economic engine?

The key is not to focus just on cutting costs; the key is to say, "We are going to focus our energy, time, resources, money — everything! — on the very few activities that meet those three tests. And any cutting that we do will essentially be to get rid of activities that don't support those three intersecting circles." That's very different from getting rid of people who are just a cost item; it's the ability to understand the answers to those questions.

Kimberly Clarke sold its mills because it understood that it was more passionate about the consumer business than about mills; it understood that it had an opportunity to be the best in the world in paper-based consumer products because it had proved it with Kleenex; and it understood that the shift would, in terms of more

positive growth, really benefit both core profitability and overall growth and drive the company's economic engine.

That's a really different form of thinking from saying, "Let's just cut a bunch of costs." That's so totally uncreative. That would be like Beethoven sitting around saying, "I think that I am going to write a symphony today. The way I am going to do it is to fire my housekeeper."

**FC:** What's your advice to people in positions of influence who strive to move something from good to great? You write that the CEOs and leaders of the good-to-great companies aren't necessarily the people with the biggest egos or the most bravado. They don't necessarily get the most press.

**JC:** Most of us don't have complete control over the environment in which we work. We may work for a decidedly un-great organization that doesn't appear interested in becoming great. After 15 years of research and asking myself that question, my advice is to focus principally on creating a pocket of greatness in your own span of responsibility. If you don't have complete control in your span of responsibility, I'm sorry, you can't make a pocket of greatness. I advise you to never accept a significant position of responsibility, ever, if you don't, fundamentally, in that mini-stand, have the opportunity to determine or exert significant influence as to who is on that bus. If you have that, you have a starting point.

At the end of the book I talk about a coach who took a high school cross-country team and made it great. They've won four state championships in three years: two boys, two girls — an amazing machine, a phenomenal program. That coach works in a school district full of people for whom good is good enough. The coach is not the principal, the athletic director or the superintendent of schools. Her approach is, "I can't make the whole school district great, but I can make the cross country team great."

I have come to the conclusion that that is the most effective thing people can do. If you run a fire department, make it a great fire department. If you run a small music studio, make it a great music studio. If you run a hotel, make it a great hotel. Make what you touch great, and don't worry too much about the rest of it. Not being great is less a function of evil intent than well-intentioned ignorance. In the 1500s doctors would bleed patients; they were well-intentioned but ignorant. All that cost-cutting is like bleeding — well-intentioned ignorance. If people can marry their good intentions to a lack of ignorance, we might see

better results.

**FC:** It's very easy to settle for good and not realize that, in fact, good becomes mediocre. Recently I've been reading how Hollywood is on the bandwagon to make sequels, because sequels are safe. The same is often true in music: Record companies try to replicate something that already exists. Radio stations do the same thing.

**JC:** The key to a great sequel is not to try to live up to the first movie, but to actually create something even better. It doesn't happen very often. The greatest musicians keep branching out in some form. Look at how David Byrne grows and grows. Amazing! I don't think that guy would know what it means to sit still and do the same thing over and over again.

**FC:** Radio stations are organic entities that must evolve, and success can be radio's enemy, because broadcasters want to screw it down tight: "There it is, we've got the formula. Gotta keep it exactly the same." They forget that it was innovation and being connected to the moment, connected with the taste and flow of the collective consciousness, that made them great in the first place.

**JC:** It's fascinating to watch radio stations go through periods of greatness. They will be great for a time and then lose it.

**FC:** Those radio stations are like art galleries, very much connected to fashion, reflecting the taste of the moment. Then there are museums. Things end up in museums only because they spent some time in art galleries. There would be no museums without art galleries. Once something new is created in radio, there's a tendency to turn it into a temple, a museum, even though it earned museum status through trial and error. That goes back to the issue of risk.

**JC:** Risk is at the center of creating anything exceptional — a company, a work of art or a great team. An ancient Greek sculptor was asked to carve a series of statues for a city's main public building. His work took longer than expected, but he was a great sculptor. When he installed the statues, the elders were irritated because he had made the backs as beautiful and complete as the fronts, which is why it had taken him so long. They asked the sculptor why he did that, since nobody would ever see the backs. He said, "Ah, maybe you can't see them, but the gods can."

That captures something core about doing anything in life: Much of what it takes to make something the best is the integrity to worry about the back of the statue, even though no one will see it. That integrity of intent runs through the whole thing and ultimately infuses it with excellence and makes it lasting. And that's the part that's so often missing.

### ... Since September 11 ...

Before Sept. 11, 2001, there were a lot of things that I took for granted. I really didn't think about all the unrest in the world. It seemed so far away, and, because of that, it wouldn't affect me. • When I turned on the TV that morning and saw what was going on, I was angry, because those towers always seemed to be targets. I felt like "This is my home, and nobody is going to get away with that." Then I saw the second plane hit, and I, like everyone else, sat there in total amazement as the buildings fell. I wanted to help in the relief effort in any way that I could. • I volunteered with FEMA. I helped out at Pier 94 at the family help center. I spent Christmas Day on the West Side Highway, cheering on police, fire personnel, EMS workers, state troopers and iron workers, letting them know they were appreciated. That was the most gratifying experience. • Since then I look at things a little differently. I don't get bothered by small things as much. Maybe this will change, but I hope it doesn't.

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