GOOD TO GREAT

AND THE

SOCIAL SECTORS

A Monograph to Accompany
Good to Great

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

JIM COLLINS
A great organization is one that delivers superior performance and makes a distinctive impact over a long period of time. For a business, financial returns are a perfectly legitimate measure of performance. For a social sector organization, however, performance must be assessed relative to mission, not financial returns. In the social sectors, the critical question is not “How much money do we make per dollar of invested capital?” but “How effectively do we deliver on our mission and make a distinctive impact, relative to our resources?”

Now, you might be thinking, “OK, but collegiate sports programs and police departments have one giant advantage: you can measure win records and crime rates. What if your outputs are inherently not measurable?” The basic idea is still the same: separate inputs from outputs, and hold yourself accountable for progress in outputs, even if those outputs defy measurement.

When Tom Morris became executive director of The Cleveland Orchestra in 1987, the orchestra faced deficits exceeding 10%, a small and stagnant endowment, and a struggling local economy. Prior to taking the position, Morris asked two key board members, “What do you want me to do if I come here?” Their answer: make an already great orchestra even greater defined by artistic excellence.

- Emotional response of audience; number of standing ovations increased.
- Wide technical range: can play any piece with excellence, no matter how difficult – from soothing and familiar classical pieces to difficult and unfamiliar modern pieces.

SUPERIOR PERFORMANCE
- Increased demand for tickets – even for more complex, imaginative programs – not just in Cleveland, but also when visiting New York and Europe.
- Invited (and then invited, and then invited again) to Salzburg Festival – for the first time in 25 years – signifying elite status with the top European orchestras.

- The Cleveland style of programming increasingly copied and becoming more influential.
- A key point of civic pride; cab drivers say, “We’re really proud of our orchestra.”

DISTINCTIVE IMPACT
- Severance Hall filled to capacity two nights after 9/11, as a place for the community to grieve together through the transformative power of great music.
- Orchestra leaders increasingly sought for leadership roles and perspectives in elite industry groups/gatherings.
Excellence sustained across generations of conductors – from George Szell through Pierre Boulez, Christoph von Dohnányi, and Franz Welser-Möst.

LASTING ENDURANCE
- Supporters donate time and money, investing in the long-term success of the orchestra; endowment tripled.
- Strong organization before, during and after Tom Morris’s tenure.

Tom Morris could not precisely measure artistic excellence, but that does not change the fact that artistic excellence is the primary definition of performance for The Cleveland Orchestra. Nor does it change the extreme discipline with which The Cleveland Orchestra held itself accountable for playing the most challenging classical music with supreme artistic excellence, and doing so even better with each passing year, guided by the BHAG (Big Hairy Audacious Goal) of becoming recognized as one of the three greatest orchestras in the world.

“We asked a simple question,” explained Morris. “What do we mean by great results?” Morris and his team tracked a variety of indicators. Are we getting more standing ovations? Are we expanding the range of what we can play with perfection – from clean classical pieces to complex modern pieces? Are we invited to the most prestigious festivals in Europe? Are tickets in greater demand, not just in Cleveland, but when we play in New York? Do people increasingly mimic the Cleveland style of programming? Do composers increasingly seek to have their work debuted at Cleveland? Under Tom Morris, the orchestra tripled its endowment to $120 million (even accounting for the post-dotcom bubble decline in assets) and funded a remodel of Severance Hall into one of the best music halls anywhere. He accomplished this because he understood that endowment revenues and cost structure were input variables, not the output variables of greatness.

ISSUE TWO: LEVEL 5 LEADERSHIP – GETTING THINGS DONE WITHIN A DIFFUSE POWER STRUCTURE

When Frances Hesselbein became CEO of the Girl Scouts of the USA, a New York Times columnist asked what it felt like to be on top of such a large organization. With patience, like a teacher pausing to impart an important lesson, Hesselbein proceeded to rearrange the lunch table, creating a set of concentric circles radiating outward – plates, cups, saucers – connected by knives, forks and spoons. Hesselbein pointed to a glass in the middle of the table. “I’m here,” she said. Hesselbein may have had the title of Chief Executive Officer, but her message was clear: I’m not on top of anything.
Facing a complex governance structure composed of hundreds of local Girl Scout councils (each with its own governing board) and a volunteer force of 650,000, Hesselbein simply did not have the full power of decision. Even so, she moved people to confront brutal facts facing girls in modern America, such as teen pregnancy and alcohol use, by creating materials on sensitive issues. Proficiency badges sprouted up in topics like math, technology and computer science, to reinforce the idea that girls are – and should think of themselves as – capable individuals who can take control of their own lives. Hesselbein did not force this change down people’s throats, but simply gave the interdependent councils the opportunity to make changes at their own discretion. Most did.

When asked how she got all this done without concentrated executive power, she said, “Oh, you always have power, if you just know where to find it. There is the power of inclusion, and the power of language, and the power of shared interests, and the power of coalition. Power is all around you to draw upon, but it is rarely raw, rarely visible.” Whether they answer to a nonprofit board composed of prominent citizens, an elected school board, a governmental oversight mechanism, a set of trustees, a democratic religious congregation, an elected membership association or any number of other species of governance, social sector leaders face a complex and diffuse power map. When you add in tenured faculty, civil service, volunteers, police unions, or any number of other internal factors, most nonbusiness leaders simply do not have the concentrated decision power of a business CEO.

Social sector leaders are not less decisive than business leaders as a general rule; they only appear that way to those who fail to grasp the complex governance and diffuse power structures common to social sectors. Frances Hesselbein was just as decisive as nearly any corporate CEO, but she faced a governance and power structure that rendered executive-style leadership impractical.

**ISSUE FIVE: TURNING THE FLYWHEEL – BUILDING MOMENTUM BY BUILDING THE BRAND**

In building a great institution, there is no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, our research showed that it feels like turning a giant, heavy flywheel. Pushing with great effort – days, weeks and months of work, with almost imperceptible progress – you finally get the flywheel to inch forward. But you don’t stop. You keep pushing, and with persistent effort, you eventually get the flywheel to complete one entire turn. You don’t stop. You keep pushing, in an intelligent and consistent direction, and the flywheel moves a bit faster. You keep pushing, and you get two turns . . . then four . . . then eight . . . the flywheel builds momentum . . . sixteen . . . you keep pushing . . . thirty two . . . it builds more momentum . . . a hundred . . . moving faster with each turn . . .
a thousand . . . ten thousand . . . a hundred thousand. Then, at some point – breakthrough! Each turn builds upon previous work, compounding your investment of effort. The flywheel flies forward with almost unstoppable momentum. This is how you build greatness.

By focusing on your Hedgehog Concept, you build results. Those results, in turn, attract resources and commitment, which you use to build a strong organization. That strong organization then delivers even better results, which attracts greater resources and commitment, which builds a stronger organization, which enables even better results. People want to feel the excitement of being involved in something that just flat out works. When they begin to see tangible results – when they can feel the flywheel beginning to build speed – that’s when most people line up to throw their shoulders against the wheel and push.

This is the power of the flywheel. Success breeds support and commitment, which breeds even greater success, which breeds more support and commitment – round and around the flywheel goes. People like to support winters!

In the business sector, the flywheel works exceptionally well. Deliver superior financial results, and the world will line up, eager to give you capital. In the social sectors, by contrast, there is no guaranteed relationship between exceptional results and sustained access to resources. In fact, the exact opposite can happen. As Clara Miller shows in her superb article, “Hidden in Plain Sight” (Nonprofit Quarterly, Spring 2003), nonprofit funding tends to favor programmatic funding, not building great organizations: “If you have a surplus, why should I give you a grant?” Small nonprofits face a valley of the shadow of death in making the shift from programmatic funding to sustained, unrestricted funding, and many fail along the way.

I find it puzzling how people who clearly understand the idea of investing in great companies run by the right people often fail to carry the same logic over to the social sectors. In place of the “fair-price exchange” of the free-market model, those who fund the social sectors can bring an assumption of “fair exchange” that is highly dysfunctional: if we give you money, we are entitled to tell you how to use that money, since it was a gift (or public funding), not a fair-price exchange. Put another way, social sector funding often favors “time telling” – focusing on a specific program or restricted gift, often the brainchild of a charismatic visionary leader. But building a great organization requires a shift to “clock building” – shaping a strong, self-sustaining organization that can prosper beyond any single programmatic idea or visionary leader. Restricted giving misses a fundamental point: to make the greatest impact on society requires first and foremost a great organization, not a single great program. If an institution has a focused Hedgehog Concept and a disciplined organization that delivers exceptional results, the best thing supporters can do is
to give resources that enable the institution’s leaders to do their work the best way they know how. Get out of their way, and let them build a clock!

Yet despite the differences between business and social sector economics, those who lead institutions from good to great must harness the flywheel effect. Whereas in business, the key driver in the flywheel is the link between financial success and capital resources, I’d like to suggest that a key link in the social sectors is brand reputation – built upon tangible results and emotional share of heart – so that potential supporters believe not only in your mission, but in your capacity to deliver on that mission.

Does Harvard truly deliver a better education and do better academic work than other universities? Perhaps, but the emotional pull of Harvard overcomes any doubt when it comes to raising funds. Despite having an endowment in excess of $20 billion, donations continue to flow. As one Harvard graduate put it, “I give money to Harvard every year, and sometimes I feel like I’m bringing sand to the beach.” Does the Red Cross truly do the best job of disaster relief? Perhaps, but the brand reputation of the Red Cross gives people an easy answer to the question, “How can I help?” when a disaster hits. Is the American Cancer Society the best mechanism for conquering cancer, or the Nature Conservancy the most effective at protecting the environment? Perhaps, but their brand reputations give people an easy way to support a cause they care about. The same applies to government-funded entities. NYPD has a brand. The United States Marine Corps has a brand. NASA has a brand. Anyone seeking to cut funding must contend with the brand.