Exclusive: Jim Collins on ‘Thriving In Chaos’

What does it take to create a truly great, lasting company amid historic uncertainty and volatility? Based on decades of research, Jim Collins, best-selling author of the business classics Good to Great, Built to Last and Great by Choice, has some answers. A challenging guide for challenging times.

By
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Editor’s note: *We’re excited to have Jim Collins as the keynote speaker at our annual Chief Executive Leadership Summit, Nov. 3-4 in Denver. It’s a special—and rare—opportunity to engage directly with one of the most brilliant business minds of our lifetime. As a member of America’s CEO community, we invite you to join us. Space is very limited, and we do expect to sell out. More information >*

Ask a few hundred CEOs from nearly every industry in nearly every part of the country for the name of the most useful business book they’ve ever read—as we recently did—and one title tops the list, and overwhelmingly so: *Good to Great* by Jim Collins.

That's because—as you likely know already—Collins did a staggering amount of research to discover what really separated middling companies from those with decades-long outperformance. Who makes the jump? And how? It's part of what's become a pantheon of classic Collins tackling one fundamental question after another: Why do great companies fail? (*How the Mighty Fall*); How do some companies persist in being great over very long periods of time? (*Built to Last*, with Jerry Porras); Why do some companies seem to survive in chaos, while others falter? (*Great by Choice*, with Morten T. Hansen).

Throughout these works, he's created some of the most widely quoted strategy ideas in a century: the Hedgehog Concept, the Flywheel, getting the right people on the bus, Level 5 leaders, the Stockdale Paradox, unlocking, along the way, some fundamental secrets about what works and what doesn't—and why—when it comes to nurturing a successful organization over the long haul. (See Jim Collins 101, below.)

Five years ago, in the wake of the bruising presidential election, I spent some time with Collins at his offices in Boulder, Colorado, asking him some fundamental questions about the nature of leadership in America. To my surprise, he was deeply optimistic—based on what he'd seen working with West Point cadets, hospital staffers, teachers and businesspeople, thousands of whom he said embodied his concept of Level 5 Leadership—people with a blend of "personal humility" and "indomitable will" who are ambitious for "the cause and the organization…not themselves." (That interview is available here.) We were a nation full of Level 5 leaders, he argued, and that was our great, under-considered strength.

Now, as the world faces yet another round of volatile, unpredictable challenges, from inflation to war to climate change to poisonous politics to a reshuffling of the post–World War II global order, I decided to talk with Collins again, this time to ask him about the nature of resilience. What do great companies do right in the face of severe challenges? What do others get wrong?

For him, there's no more timely question in business. "The primary reality of history is uncertainty, turbulence, chaos," says Collins. "As Edward T. O'Donnell, a history professor, puts it, 'history is the study of surprises.' So, I actually feel we're heading into what is more normal, rather than what is less normal. In some various form, this level of uncertainty is more likely—nobody can say with certainty—to characterize the rest of our lives than not."

But once again, that doesn't mean Collins is pessimistic. Far from it. As he reminds us, even if most of our post–World War II stability was, in his words, "aberrant" compared with the rest of human history, that only means that most of the critical facets of our civilization were developed in chaotic rather than stable times. "Look at what people did," he says. "Look at the kinds of companies people built, look at what people accomplished through all the uncertainties, turbulence, chaos, change, technology, that came before. They did it. So, we can do it."

The question, of course, is how: How do great companies make their way through tough times? How do the best leadership teams approach uncertainty and volatility? And how can we do it, too? The following conversation is edited for length and clarity.

What have you learned about what great leadership teams do—and what the not-great do—during volatile times and what happens as a result?

The wonderful thing is, we have research we can draw upon. The work that Morten [Hansen] and I did in Great by Choice was really, ultimately, about thriving in chaos.

Number one, we observed that you learn how to exert self-control and self-discipline in a world that is out of control. We found this marvelous matched pair, Roald Amundsen and Robert Falcon Scott, the first two to try to go to the South Pole in 1911. It was like an entrepreneurial startup heading off into the most uncertain and unforgiving environment. It wasn't just, "Hey, let's go to the South Pole, hunker down and survive." It was to try to be the first in history to reach the South Pole.

What we found is that the way Roald Amundsen led—he's the one who got there first and got back alive and safe—was different than the way Robert Falcon Scott led. Scott got there second, and then he and his entire team died on the way back that same year.

The environment was completely out of control. It's the South Pole. It's 1911. It can easily kill you. You think it's hard building a company in California? Try going to the South Pole in 1911. It was the moon mission of 1911.

Amundsen was very, very disciplined in his march across the plateau, and Scott was very erratic. Amundsen stayed on this consistent march. He never wanted to get exposed to a terrible storm when he was depleted and exhausted. But even on really uncertain days, he would still make progress towards their goal, they were 20-mile marching across the plateau. Scott was much more erratic. He had big days and not big days, and the weather determining his pace rather than himself.

When we looked inside companies that did really well in times of uncertainty, they had the same pattern. They had something they would focus on that was like a heartbeat march that kept them exerting a sense of self-control in a world that was out of control. A historical business example of this is the rise of Intel from startup company into the 2000s. In that case, their march was to stay on Moore's law.

Imagine all the chaos, uncertainty, technology change and disruptions. In fact, their entire business got obliterated, essentially, when the memory chip business went into [depression] in the 1980s. But they had this march, which was doubling components at affordable cost every 18 to 24 months, no matter what, like clockwork. They never, ever missed it. Moore's Law wasn't a law, it was a decision.

It speaks to figuring out what that one key metric is that moves your business, and committing to it over and over.

Right. It's not a random choice. You could have a technology march, a profitability march, a growth march, a cost march or whatever. It just has to be an intelligent march for you.

Having that heartbeat allows you to exert self-control in a world that is out of control. When people are feeling frozen, feeling, "What do we do next? Oh my god, inflation might happen, and it might be 9 percent. What happens with interest rates? What's going to happen with the geopolitical situation?" If you basically say, we're going to set out and commit ourselves to achieving this march for 25 consecutive years, you manage yourself differently than if it's just reacting to the environment. Amundsen led his team across the plateau that way, and Scott didn't.

The second thing that we also saw in our companies is that in an uncertain world, there's this very weird paradox of, on the one hand, placing really big bets, and, on the other, protecting your flanks against downside events, and putting both of those together. Amundsen and Scott both had to come up with a strategy for navigating an uncertain environment. Amundsen said, "I've got to bet my strategy on something that's empirically proven because if it fails, we might not just fail in our quest, we might die." So he goes and lives with people in the Arctic, who have navigated these environments for thousands of years. They say, "You want to use dogs and sleds. That's what we've tested. That's what works. That's what you need to master. If you're going to bet your life on a strategy, bet on dogs and sleds."

Scott bet on an untested technology, to drive motor sledges across the Antarctic Plateau. They didn't do well in that environment, and the engine blocks cracked. So they ended up man-hauling sleds across the plateau. It didn't work very well.

In a tough environment, you have to place a bet on your strategy. When you bet on an un-empirically validated strategy—this is where that idea of "fire bullets to get calibration and then fire your cannonballs" tends to do well. Then, when you bet on an empirically validated approach, you bet very, very big. Companies that get in trouble tend to often place big bets because they're uncertain, but they're big bets that are uncalibrated, and then uncertainty intersects with a big uncalibrated bet. And that can kill.

You described this in How the Mighty Fall—that increasingly desperate hunt for a "one-off" to save yourself.

It's the stage of grasping for salvation. In good times, everybody's rising up; they've got the hubris and the undisciplined pursuit of more—we're not 20-mile marching, we're just going for more and growth and big and more and growth, until it starts to catch up with you. You're not 20-mile marching, you're just more growth big, more growth big.

It's hard to tell what's leadership prowess and what's luck when you're in a rising market. These days you need a little more craft than that.

This is what can get lost in a rising tide. Top leaders have great productive paranoia. They always assume everything will go bad and manage accordingly. Part of what enables them to survive spates of bad luck, catastrophic downturns and unexpected shocks is they just build more shock absorbers into their whole system.

We went back and ran an analysis on the cash-to-assets ratio of companies that did really well in these kinds of environments, even when they were small. We found that the discipline to have a very high cash-to-assets ratio showed up early in their history. It wasn't a luxury of their success. It preceded their success.

I go back to Amundsen and Scott. Both calculated the amount of supply depots they needed. It is highly inefficient to multiply your potential supply depots by three. But it's not highly inefficient if you’re coming back, winter’s gathering on you, and you run out of supplies and die. Tell me what efficient is. We found that great companies are kind of irrational in their “efficiency.” They’re not the most efficient use of capital; they’re not the most efficient use of buffers. What they are is enormously resilient by design.

You see people who maintain highly conservative balance sheets and enormously prudent financial positions. They’re willing to place really big, calibrated bets—but they also protect the flanks. They always assume there’s something coming around the corner they can’t see but that will be disruptive, they know it could be really bad. It’s not a matter of if that will happen. It’s only a matter of when, what form it will take and how fast and ferocious it will be.

They further understand that that’s an advantage for them. If you study economic history, you find that in good times it’s very hard to see the difference between the great and the mediocre. They both look pretty good. But when turbulent times come, the great tend to navigate it reasonably well. And the mediocre tend to get slammed, and a gap opens between the great and the mediocre. And then that gap is never given back.

We systematically studied luck events and studied the role of luck: good luck, bad luck. Covid was bad luck for the whole world, right? But when you understand what luck is and that you can actually define it, quantify it and study it, there was no evidence that our big winners were luckier than our comparisons. What they got was a higher return on the luck events, the good luck or the bad luck, than their comparison.

It’s the return on the luck that separates, not the luck itself. But there’s one really key caveat, and this is something people have to grasp about luck. For building a great company, luck is not a causal variable. Good luck never, ever causes a great company. Bad luck, if it’s big enough, can kill a company. That’s why you have to manage yourself such that you can absorb tremendous hits of bad luck, so you never hit the death line.

For you, the ultimate resiliency starts at the very beginning, with finding the right people. Getting those purposeful, driven-for-the-company, not themselves, “Level 5 leaders,” as you call them, on the bus, in the right seats. Can you talk about achieving that in a time when it’s hard to hire people?

You can’t do everything I just talked about if you don’t have the right people. There’s a wonderful Edward T. O’Donnell quote, “Your ultimate hedge against uncertainty is your people, people who can adapt to whatever the world throws at you.”

Here are a few things I would pass along to any CEO right now. Sit down and make a list of all the people in your company who surprised you on the upside with their leadership through Covid. Because Covid exposed the leadership capabilities of people. I’ve had conversations with numerous CEOs who realized that Covid brought some people to the fore whose Level 5 leadership wasn’t necessarily so visible before under the stress of Covid. Take that as a gift, and say, “It’s hard to find enough of the right Level 5 leaders, but Covid just gave me a bunch of Level 5 leaders that I hadn’t seen before.”

How can you make those people a bigger part of leading your company today? One of the most effective ways is to say, “There’s Jane, Suzy and George. And those three leaders showed a Level 5 leadership through Covid that is extraordinary. I'm gonna make them 10 times more important in this company than they were before." That's like getting 10 new Level 5 leaders.

If every single one of your readers did that right now, they've got a resource they can build upon. It's great, too because there's nothing more exciting than to recognize somebody, to suddenly realize, "Wow, I never saw that in them before." That's very exciting to identify and work with.

Another thing I encourage is literally thinking: How many key leadership seats do we have? It's more than just your executive team. And how many of them have Level 5 leaders?

A CEO of a privately held second-generation family company, enormously successful, wrote me a letter recently that says simply, "My life's work is to build an iconic company that can last 100 years, driven by Level 5 leaders driving a fleet of sparkling minibuses. I intend to fulfill this before I'm done." Then there is this marvelous sentence. "Of 450 leaders, we have 42 Level 5 leaders. There is work to be done." What I love about that is he's systematically saying, "It's not just about me being a Level 5 leader, I need 450 Level 5 leaders. And if I have Level 5 leaders in all these different leadership roles…" It's a matter of building them; it's not necessarily finding them, it's building them. Then we can do great things, and we can absorb all kinds of shocks, and we have an inherent resiliency.

One part of your work that's always resonated is the idea of "confronting the brutal facts" and the Stockdale Paradox, or not giving up hope but also not giving in to Pollyanna optimism. Why is this so hard for leadership teams?

Part of what happens is that leaders are afraid, sometimes, that if you dwell on and confront the brutal facts, it will somehow be demotivating. The truth is exactly the opposite. Your best people know the brutal facts. And as soon as you begin to confront them—simply by asking, “What are the brutal facts?”—the very best people tend to get really inspired, because they would like nothing more than to confront them and to overcome them. There’s very little that’s more demotivating than feeling that your leaders are failing to confront the facts that you see so clearly.

I was at a storied American company facing new challenges from competitors around the world and watching the CEO present. I could see everybody in the room. The first part of the presentation had to do with a vision. And, as you know, having a great vision is a great thing. But I noticed a lot of people checking their phones and kind of distracted. It was a pretty good vision but didn’t really magnetize people.

Then the CEO put up a “brutal facts” slide. He said, “We really need to confront the brutal facts that are in the way of accomplishing our vision.” He put out some things related to some scary stuff, about the threat of the international competition, about the cost structure, about a number of things. Everyone put down their phones. The room went silent. People were riveted. One of the most engaging things you can do is present the brutal facts. And yet people fear that, “oh, the brutal facts will demoralize people.” No, exactly the opposite.

Part of it is just not asking the question. When an executive team comes to our management lab, I ask everyone to take out a blank sheet of paper and write down the top five brutal facts that the company faces today literally seven seconds into the session.

That's how you start?

That's where it begins, every time. That explodes all the conversations open. It's not just what's wrong. It's what are the facts? I find that building in the discipline to ask about the brutal facts is really powerful. And all you have to do is ask.

A second thing is you have to be able to conduct autopsies without blame. Things go wrong, mistakes get made. You want a culture where the question is not, "Who do we blame?" but "How do we autopsy and learn from this?" If it ever devolves into trying to figure out who to blame, you will shut down the confronting of the brutal facts. That's part of the secret sauce of doing this.

Now, the other side—unwavering faith has to do with timeframe. Why am I an optimist, for example, about our country? Well, in any given news cycle, you can feel, mmmmm, right? Unwavering faith is about "we will work through this, we will come out the other side. It might take a long time." What's hard about the unwavering faith is that it's a bit like delayed gratification. You have to retain that faith with the idea that that's a long-term outcome, not a tomorrow outcome. If I could pick the one thing that I would change in how executives lead companies by magically waving a wand, it would be the timeframe in which they operate—that you manage for the quarter century, not the quarter.

The central point to a lot of your work in my mind is the "Flywheel," finding that operating system inside your company where you can attain repeatable success and grow it over time. How do you get clear on what your flywheel is?

The essence of the flywheel is momentum. Usually over time, across multiple businesses, as you evolve from one phase to another phase to another phase as a company.

Think about two ways you can feel the world coming at you. One is like you're on your heels. You're getting buffeted about. Or, you can feel that, yeah, maybe there's a hurricane in your face, but the fundamental feel you have is forward momentum. You never want to underestimate the power of feeling momentum in what you're doing. It's this building effect even if it's in a particularly challenging time, the sense that you are creating momentum. The flywheel is about that. It's also about the idea that building anything great is a cumulative process.

The turning point for me in understanding the power of the flywheel when you're facing difficulty came in 2001, when I presented the Good to Great ideas to Amazon and met with the executive team, the board and Jeff Bezos.

It was the dot-com crash. Whatever we're facing now, it may not be as hard as being a dot-com company in 2001. I taught the Good to Great ideas, but I put special emphasis on the flywheel principle. I'm not a consultant, I don't tell people what to do, so as I left Seattle I simply said, "Don't respond to this as a crisis. Respond as a flywheel." Amazon took the flywheel principle, and they asked, "What is our flywheel?" Then they captured the architecture of momentum. They sketched out how that architecture of momentum of their flywheel worked, and they built upon that, turning the flywheel coming out of the dot-com crash.

In a disruptive world, you don't do well by blowing up your own flywheel. That's not how you respond to a disruptive world. You disrupt the world by turning your flywheel. The disruptors are a flywheel. The disruptees are those who react to a crisis.

Once you understand your flywheel, you can build on it systematically. It's kind of like the 20-mile march, except it's all about the momentum. If we do A, it'll drive B, if we do B, it'll drive C, if we do C, it'll drive D, and so forth, around and around the flywheel.

So, how do I identify our flywheel? How do I know I've got it right?

A lot of people use the word flywheel, but when I look at their flywheels, I realize they're not flywheels. A flywheel is not a series of steps drawn as a circle, then you go, "We have a flywheel, because it's drawn as a circle." That's not a flywheel.

You need five checks to know that your flywheel is really a great flywheel. First, it has an inexorable chain of momentum. In the case of Amazon, you can offer lower prices, more stuff for customers. Next is an inevitable consequence of that. If we do A, then we can't help but bring more customers to the site. And if we bring more customers to the site, then we can't help but attract more third-party sellers. And if we do that, then we can't help but expand the store and extend distribution. And if we do that, we can't help but grow revenues per fixed cost. And if we do that, we can't help but be able to lower prices on more stuff. Every step in the chain follows such that it throws you into the next step. That has to be the case along every single line in the flywheel, because that's what creates the momentum.

The second test is that the starting point at the top of the flywheel captures something essential about you. In the Amazon case, it's about lower prices or more for our customers, because they're a customer-obsessed flywheel. But for my friends at Giro Sport Design, who started out making great bicycle helmets, it was always about the next great innovative bike products that will help people bike faster. Or 3M's flywheel in the 1930s was cultivating a culture of creative ferment to create an innovation machine, right? My flywheel starts with what's the next question I want to answer, because that's my animating force. Pick the top of the flywheel to reflect something essential, then begin creating change.

Number three, there's a right side and a left side of the flywheel. Your right side is about actualizing your purpose in the world. It's what you do, what you contribute, how you make your customers or other people's lives better. It's what you do that is of value in some way and of use.

The left side of the flywheel is fuel. It's high profitability based on your brand at Giro Sport Design that we could reinvest. It's economies of scale at Vanguard and Amazon. It's fuel. Then, here's the key: The fuel is not to be siphoned off to make a bunch of people rich; the purpose of the fuel is to go back to the top of the flywheel and drive it around even faster.

Number four is it's got empirical validation. The way you start working on your flywheel is you make a list of your big successes and your big disappointments. You look at those and say, "If we have a flywheel, it is already evident in what our big, replicable successes are." Our disappointments should be things that wouldn't fit on the flywheel, that's why they're disappointments.

So, when you go back, you back-test your flywheel against where you've actually been incredibly successful and map that your actual replicable successes can be explained by the flywheel.

Number five is that it's an architecture, not a business. It allows you to move, say, in the case of Apple, from personal computers to smart handhelds to an entire ecosystem on one flywheel. Or restaurants to hotels on one flywheel. Or chemicals to pharmaceuticals on one flywheel, right? From Amazon website to Amazon Web Services on one flywheel. That ability to see that the flywheel is not constrained to one specific little narrow business, but it's an architecture, and you can renew your company over time into exciting new businesses that fit on that flywheel. If your flywheel meets those five tests, you've got a really good flywheel.

Bonus: Jim Collins 101

There's no substitute for reading the books, but here, distilled from all of Collins' work and arranged in order, are his key principles to building a Great company that can take a punch and thrive for decades. (See more.)

1. Cultivate Level 5 Leadership. Tough people who are ambitious for the cause and for the organization, not themselves.

2. First Who, Then What. Get the right people on the bus and in the right seats before you decide where to drive the bus.

3. Embrace the Genius of the "And." In the research for Built to Last, Collins found builders of greatness are able to embrace extremes at the same time, i.e.: purpose AND profit, continuity AND change.

4. Confront the Brutal Facts. "Every good-to-great company embraced what we came to call the 'Stockdale Paradox.' You must maintain unwavering faith that you can and will prevail in the end, regardless of the difficulties, and at the same time, have the discipline to confront the most brutal facts of your current reality, whatever they might be."

5. Develop Your Hedgehog Concept. "A simple, crystalline concept that flows from deep understanding about the intersection of three circles: 1) what you are deeply passionate about, 2) what you can be the best in the world at and 3) what best drives your economic or resource engine."

6. Build Your Flywheel. In Collins' research, he found building a great company "has no single defining action" but rather "resembles relentlessly pushing a giant, heavy flywheel, turn upon turn, building momentum until a point of breakthrough, and beyond."

7. 20-Mile March. "Enterprises that prevail in turbulence self-impose a rigorous performance mark to hit with great consistency—like hiking across the United States by marching at least 20 miles a day, every day."

8. Fire Bullets, Then Cannonballs. Don't use up all your dry powder firing your big gun at a problem without first firing a series of smaller, calibrating shots. Once you've hit your mark, then you can open up.

9. Practice Productive Paranoia. "Leaders who stave off decline and navigate turbulence assume that conditions can unexpectedly change, violently and fast. They obsessively ask, "What if?" And they prepare accordingly.

10. Clock Building, Not Time Telling. "Leading as a charismatic visionary…is time telling; shaping a culture that can thrive far beyond any single leader is clock building."

11. Preserve the Core/Stimulate Progress. "Great organizations keep clear the difference between their core values (which never change) and their operating strategies and cultural practices (which endlessly adapt to a changing world)."

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Dan Bigman is Editor and Chief Content Officer of Chief Executive Group, publishers of Chief Executive, Corporate Board Member, ChiefExecutive.net, Boardmember.com and StrategicCFO360. Previously he was Managing Editor at Forbes and the founding business editor of NYTimes.com.