

GOOD TO GREAT

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

JIM COLLINS



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Ideas Come Alive



THE BIG "SO WHAT"

The book addresses the questions: Can a “good” company make the transition to be “great”? And if so, how? Through extensive research and analysis, Collins identified a number of timeless principles that helped a small group of companies to break away from the rest and consistently outperform the market.



IDENTIFYING GREATNESS

Collin and his research team started with 1,435 good companies, examined their performance over 40 years, and identified 11 companies that became great, namely Abbott, Circuit City, Fannie Mae, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens, Wells Fargo. These good-to-great companies had:

- 15 years of cumulative stock returns at/ below the general stock market
- A distinct transition point
- Followed by cumulative stock returns of at least 3 times that of the general market over the next 15 years

This group of 11 companies were compared against 2 groups of comparison companies, the first group from same industry (with similar circumstances but didn't make the leap), and the second group of “unsustained companies” that made the leap but didn't sustain the performance.

Why bother with greatness to begin with? The findings suggest that it does not take a lot more to build a great organization as it does a good one, yet the process is more fun and delivers

KEY QUOTES

“(The book) is ultimately about one thing: the timeless principles of good to great.”

“Good is the enemy of great is not a business problem. It is a human problem.”

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice.”

better results, so why not? In any case, when the company focuses on what its people are passionate and about (a trait of good-to-great companies), people will naturally want to make it great.



LEVEL 5 LEADERSHIP

At the time of their big transition, all the good-to-great companies had Level 5 leadership. “Level 5 leaders” are at the top of a 5-level hierarchy, and exhibit the duality of personal humility and professional will, e.g. Colman Mockler, David Maxell, Darwin Smith, Joe Cullman, Fred Allen.



Professional Will

Level 5 leaders have huge ambitions for their institutions (not themselves). They are fanatically-driven to deliver results, set exacting standards, demonstrate an unwavering resolve and a quiet doggedness to do whatever it takes to bring the company to greatness.

They demonstrate the window-and-mirror syndrome. When things go well, they look out of the window and give credit to factors outside of themselves (when they can't find factors to credit, they attribute success to “good luck”). When things go poorly, they look in the mirror, take responsibility internally and never blame bad luck.

Noticeably, the good-to-great companies did not have celebrity leaders from the outside. Rather, 10 of the 11 CEOs companies had CEOs from the inside, unlike the comparison companies that tried outside CEOs 6 times more often.



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KEY QUOTES

“Self-effacing, quiet, reserved, even shy – these leaders are a paradoxical blend of personal humility and professional will. They are more like Lincoln and Socrates than Patton or Caesar.”

“Level 5 leaders are fanatically driven, infected with an incurable need to produce results”



Personal Humility

Level 5 leaders put their egos aside, and focus on the companies' long term interests. They demonstrate a "compelling modesty", talk about the company (not themselves), shun public praise, and are not boastful. They rely on inspired standards, not charisma, to motivate. They set up successors so that the company could be great without them.

By contrast, the unsustainable comparison companies were more likely to have talented but ego-centric leaders, who produce a leap in performance, that dies off over time



Identifying Potential Level 5 Leaders

While there's no solid research on how to cultivate Level 5 leaders, Collins recommends looking for situations where there are extraordinary results but no one is stepping forth to claim excess credit – there's a high chance you will find a Level 5 leader at work.



FIRST WHO...THEN WHAT

Instead of setting a grand vision and strategy, then rallying people behind them, good-to-great companies got the right people onboard, then figured out which direction to take.



Right people, then direction/strategy

The Level 5 leaders first focus on finding the right people (A-team players who make a conscious decision to take on the challenges), then developed the strategy. For example, David Maxwell, CEO of Fannie Mae held back on his strategy until his team was in place, despite pressure from the board, and even though the company was \$56 billion in debt and losing \$1 million each business day.

By contrast, the comparison companies focus first on setting the vision, then putting people on the roadmap. Their leaders may be individually talented, but tend to enlist helpers rather



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"They first get the right people on the bus, the wrong people off the bus, and the right people in the right seats – and then they figured out where to drive it."

"Great vision without great people is irrelevant."

"In a good-to-great transformation, people are not your most important asset. The right people are."

than develop strong executives - the model falls apart when the leader leaves.

There was no evidence to support the idea that a certain structure of executive compensation (be it cash, stock, salaries or incentives) helps in the good-to-great transition. The right compensation helps to get the right people onboard & keep them there. However, once you have the right executives, their behaviours aren't dependent on the compensation model; their own drive for excellence will ensure that they do the best they can.



Be Rigorous (but not Ruthless) about People

Good-to-great companies **exercise rigorousness in people-related decisions and in building a superior executive team.** However, they do not carry out endless restructuring nor ruthlessly swing the axe. Layoffs were used 5x more frequently in comparison companies than good-to-great companies. Collins identified **3 practical principles for rigorousness:**



When in doubt, don't hire – keep looking. Grow at a pace with which your company can attract enough of the right people.



If you need to make people changes, do it. Obviously, it is best to have the right person in the right seat to begin with. At the top management level, good-to-great companies show a bipolar pattern: people either stay for a long time, or they leave quickly (if there's no fit). To assess if someone should be on the team, ask:

- Would you hire this person again?
- If the person were to leave, would you be disappointed or relieved?



Put your best people on your biggest opportunities, not your biggest problems. But, if you sell off your problems, don't sell off your best people.



The 3 simple truths

The “First Who, then What” approach works because of 3



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“It's not how you compensate your executives, it's which executives you have to compensate in the first place.”

“The right people will do the right things and deliver the best results they're capable of, regardless of the incentive system.”

simple truths:

- Beginning with “who” rather than “what” means that people are not onboard because of a specific direction – that makes it **easier to adapt to external changes and switch direction** if necessary.
- The right people are already intrinsically motivated to produce the best possible results and be part of something great – there are **no issues of people management and motivation to deal with**.
- **If you have the wrong people, you cannot succeed** even if you had the best direction.



CONFRONT THE BRUTAL FACTS (YET NEVER LOSE FAITH)

Good-to-great companies don't just pursue a vision – they constantly refine their paths with brutal facts, with **2 types of disciplined thought**:

- They **face the brutal facts** in all their decisions; and
- They **apply a simple but insightful frame of reference** (the Hedgehog Concept) for all their decisions.



Confronting Brutal Facts...

Good-to-great leaders **create an environment where the truth can be heard**. By contrast, larger-than-life/ charismatic leaders can become a liability if the focus is on them rather than the true realities. There are **4 basic practices to achieve a climate of truth**:



Lead with questions, not answers. Those leading from good-to-great realize that they do not have all the answers. They ask the right questions that lead to the best possible insights. They use informal meetings (without agenda) to allow realities to surface.



Engage in dialogue & debate, not coercion. Good-to-great companies have intense dialogues, and their strong executives debate and fight aggressively to find the best answers. Yet, because of this process, they will unify fully behind a decision.



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“The moment a leader allows himself to become the primary reality, rather than the reality being the primary reality, you have a recipe for mediocrity, or worse.”

“Yes, leadership is about vision. But leadership is equally about creating a climate where the truth is heard and the brutal facts confronted.”



Conduct autopsies, without blame. This supports understanding and learning, and creates a climate where the truth is heard.



Build “red flag” mechanisms. Good-to-great companies did not have more information than comparison companies, but they paid attention to crucial information. The red flag concept means turning information into feedback that cannot be ignored.



...with Unwavering Faith

There is a sense of euphoria in good-to-great companies as they demonstrate a commitment to prevail, face the truths head on, and emerge stronger and more resilient.



They all demonstrate the “Stockdale Paradox” – they retain the faith that they will prevail in the end, and at the same time exhibit discipline to confront the most brutal facts of their current realities. They are not simply optimists who believe that things will work out on their own.



THE HEDGEHOG CONCEPT

This idea is built on the concept of the Greek Parable, The Hedgehog and the Fox. The fox pursues many ends, sees the world as complex, and is scattered/diffused. The hedgehog, conversely, simplifies the world into a single idea or principle that guides everything it does.

Good-to-great companies demonstrate a strategic difference in 2 areas:

- They build their strategies on a **deep understanding of the “three circles”**;
- They identify a **simple, crystalline concept** that guides all their efforts.



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“They all maintained unwavering faith that they would not just survive, but prevail as a great company. And yet, at the same time, they became relentlessly disciplined at confronting the most brutal facts of their current reality.”



Simplicity within the Three Circles

The Hedgehog Concept lies at the intersection of the 3 circles:



What you can be the best in the world at. A hedgehog concept is not a goal / strategy/ intention/ plan to be the best; it is an understanding of what you can be the best at. It is equally important to know what you cannot be best in the world at. It requires transcending the “curse of competence” - just because something is your core business doesn’t mean you can be the best at it.



What drives your economic engine. Good-to-great companies discover the one denominator (profit per “X”) that impacts their economics most significantly, where “X” could be employee, geographic region, customer, consumer brand etc.

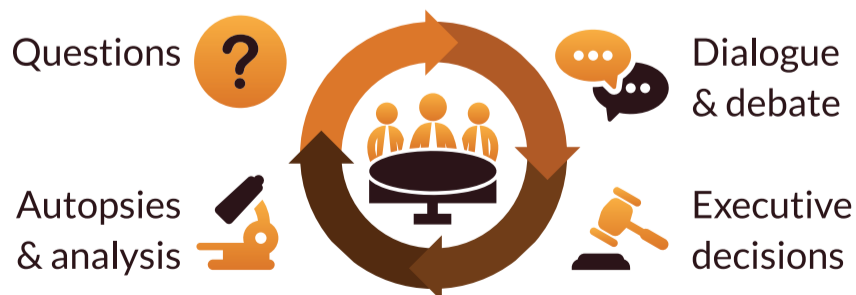


What are you deeply passionate about. It is not about stimulating passion, but discovering what makes you passionate, be it for the product, industry, or what the company stands for.

An Iterative Process

Getting clarity on the Hedgehog Concept is an iterative process that takes time. The good-to-great companies took about 4 years on average to crystalize their concepts. Yet, when they find it, it has a quiet, obvious truth to it that is undeniable.

The process involves repeating these 4 steps (guided by the 3 circles). A useful device to use is the “Council” (a standing body of 5-12 right people) who meet periodically to debate and perform the 4 iterative steps:



A CULTURE OF DISCIPLINE

Most successful start-ups don’t grow into great companies. As



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KEY QUOTES

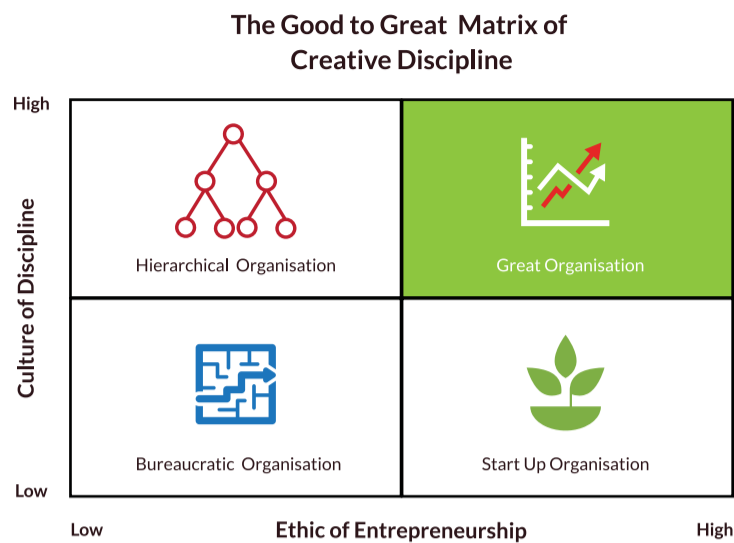
“You can’t manufacture passion or ‘motivate’ people to feel passionate. You can only discover what ignites your passion and the passions of those around you.”

“When you get your Hedgehog Concept right, it has the quiet ping of truth...There is no need to say much of anything.; the quiet truth speaks for itself.”

they grow, they start to introduce bureaucracy and rules to make up for incompetence and lack of discipline.



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KEY QUOTES

“When you combine a culture of discipline with an ethic of entrepreneurship, you get the magic alchemy of great performance.”

To avoid bureaucracy, hierarchy, and excessive controls, instill a culture of discipline (through disciplined people, thought and action). Combine the culture of discipline with an ethic of entrepreneurship to get superior performance.



Specifically , this involves a few components:



Build a culture around **freedom and responsibility**, within a specific framework or system with clear parameters.



Hire only self-disciplined people, who will go the extra mile to fulfill their responsibilities. That way, you only need to manage the systems but not the people.



Build a culture of discipline, not use a tyrannical disciplinarian. Good-to-great companies have Level 5 leaders who develop an enduring culture of discipline, while unsustained comparisons had leaders who personally and forcefully discipline the organization.



Fanatical adherence to the Hedgehog Concept. Only start or do things that fall into the intersection of the 3 circles. Stop doing anything, however big the opportunity, that falls outside the intersection. Create a “stop doing” list, so you can channel all

“A great company is more likely to die of indigestion from too much opportunity than starvation from too little. The challenge becomes not opportunity creation, but opportunity selection.”

your resources into the 1-2 areas that you choose to focus on (which is consistent with your Hedgehog Concept).



TECHNOLOGY ACCELERATORS

Good-to-great companies think differently about technology.



Technology as accelerators, not creators, of momentum. 80% of good-to-great executives do not consider technology as one of the top 5 factors in their transformation. Technology cannot ignite transformations; they can only accelerate momentum. Good-to-great companies carefully select the technology they adopt - **if a technology fits directly with their Hedgehog Concept, they adopt it fully and become pioneers in the application of that technology.**



Avoiding the Technology Trap. Good-to-great companies do not focus on technology as a key factor in their transitions. They do not respond to technology fads nor jump on the bandwagon. Rather, **they focus single-mindedly on their Hedgehog Concept and use technology as merely one of the tools or drivers to accelerate results.**

Unlike comparison companies, many of whom adopted technology with the fear of being left behind, the good-to-great companies are motivated by their inner drive for excellence and their deep creative urge. **They maintained a balanced and big-picture view on technology.**



THE FLYWHEEL AND THE DOOM LOOP

The good to great transition is not a process of overnight metamorphosis, nor is there a single big success factor. **It is an accumulation of many interlocking steps and factors that build on one another until a point of breakthrough**



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“Technology is by itself never a primary, root cause of either greatness or decline.”

“Crawl, walk, run’ can be a very effective approach, even during times of rapid and radical technological change.”

“Good to great comes about by a cumulative process – step by step, action by action, decision by decision, turn by turn of the flywheel – that adds up to sustained and spectacular results”

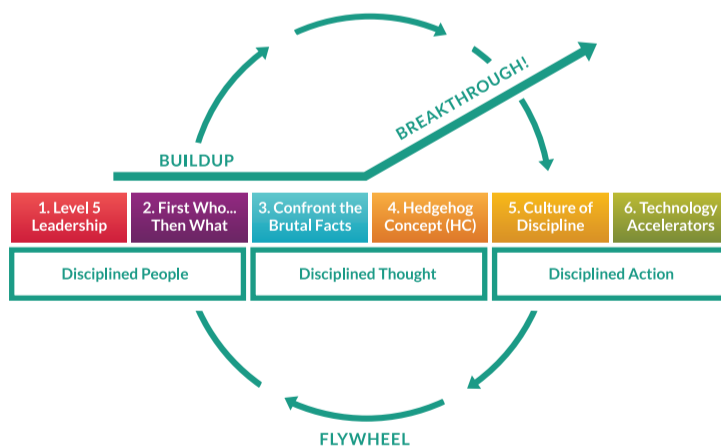
is reached, much like how a flywheel picks up momentum turn by turn. The companies usually did not realize their own transformation until after the fact.

 A surprising finding was that, good-to-great companies did not have to deal with issues of commitment, alignment, motivation etc. – with the right conditions, these problems simply dissolved.

The companies don't usually start with a publicly proclaimed goal. They start by spinning the flywheel, turn by turn, creating an understanding of their action and results. When people can see the results and potential, and how a plan is being born, they naturally rally behind it. Because the flywheel is doing the talking, there is no need to fervently communicate the goal or align people to the vision.



The reverse holds through for comparison companies, who suffer the “Doom Loop” – A new direction/ program/ leader/ event kicks in, there is no build-up of momentum, creating disappointing results, and people react without understanding.



Essentially, the flywheel is a wraparound idea: every component in the book provides a push on the flywheel, and all the pieces work consistently and coherently together to create momentum and an eventual breakthrough.

FROM GOOD TO GREAT TO BUILT TO LAST

Generally, *Good to Great* is much like a prequel to the book



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“Under the right conditions, the problems of commitment, alignment, motivation and change largely melt away.”

“The process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond.”



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Built to Last. The good-to-great ideas lay the groundwork to bring a company from startup to sustained great results, while built-to-last ideas take it beyond to become an enduring company with an iconic stature.

The key difference is that, with the flywheel already having gathered momentum, **Visionary Companies** emerge when they can develop core values and a purpose beyond profits, and can constantly preserve their core while stimulating progress. Connecting the ideas in the 2 books, Collins highlighted that a good BHAG should be set with understanding of the 3 circles - it provides a powerful unifying force to help people focus on bringing the Hedgehog Concept further and deeper.



OTHER DETAILS TO LOOK OUT FOR IN THE BOOK

For those who are into research methodology and details, Collins provides an outline of the research journey in Chapter 1 of the book, with research appendixes detailing the companies selection process, & breakdown of several analysis of CEOs, industries, acquisition strategies etc.

He also lists down the best practices for the 11 good-to-great companies including their “Best-in-the-world” list, their economic denominators and their list of technology accelerators. He ends off the book with a detailed list of conceptual links between *Good to Great* and *Built to Last* and some Q&As on common questions and clarifications asked about the Good to Great ideas.

ABOUT THE AUTHOR OF GOOD TO GREAT



James C. “Jim” Collins (born 1958) is an American author, lecturer and business consultant on leadership and what makes great companies tick. He holds a bachelor’s degree in Mathematical Sciences and an MBA from Stanford University, and honorary

doctoral degrees from the University of Colorado and the Peter F. Drucker Graduate School of Management at Claremont Graduate University.

Collins began his research and teaching career at the Stanford Graduate School of Business, where he received the Distinguished Teaching Award in 1992. In 1995, he founded a management laboratory in Boulder, Colorado, where he conducts research and engages executives from the corporate and social sectors. Besides his work in the business sector, Collins also has a passion for the social sectors, such as education, healthcare, government, and cause-driven non-profits. He has authored/ co-authored 6 books, including *Good to Great*, *Built to Last*, *How the Mighty Fall*, and *Great by Choice*.

For more details, visit <http://www.jimcollins.com/>

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