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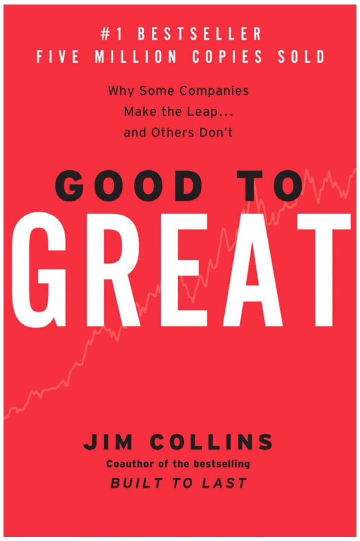

Good to Great

THE SUMMARY

Jim Collins 2001

ABOUT THE AUTHOR

Jim Collins

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Chapter 1: Good Is The Enemy of Great

Good is the enemy of great—and this is one reason we have so little that becomes great. We settle for good.

After writing *Built to Last*, it was pointed out to me that most of the companies we looked at had always been great—they started that way. But what about companies that wake up halfway through life and realize they are good, but not great? Can a good company become great, and if so, how?

To find out, we identified companies that made the leap from good to great and sustained those results for at least fifteen years. We then compared those companies to others in their industries that didn't make the leap, or didn't sustain it. The good-to-great examples averaged cumulative stock returns 6.9 times the general market in the fifteen years following their transition points. To put this in perspective, if you invested $1 in a mutual fund of the good to great companies in 1965, by January 1, 2000, you would have multiplied it 471 times, compared to a 56-fold increase in the market.

At first glance we were surprised by the list. Who would have thought that Fannie Mae would beat GE and Coca-Cola, or that Walgreen's would beat Intel? The surprising list made something clear right up front: it's possible to turn good into great in the most unlikely of situations. In fact, while we had a lot of insights,

Published by Study Leadership, Inc. 1N010 Prairie Path Lane, Winfield, IL 60190

one giant conclusion stands above the others: We believe that almost *any* organization can substantially improve its stature and performance, perhaps even become great, if it conscientiously applies the framework of ideas we've uncovered.

Chapter 2: Level 5 Leadership

In 1971, a seemingly ordinary man named Darwin Smith became chief executive of Kimberly-Clark, a stodgy old paper company whose stock had fallen 36% behind the general market over the previous twenty years. Although some people questioned if he was the right choice, he remained CEO for the next 20 years.

What a twenty years it was! In that period, Smith created a stunning transformation, turning Kimberly-Clark into the leading paper-based consumer products company in the world. Under his stewardship the company generated cumulative stock returns 4.1 times the general market, handily beating rivals Scott Paper and Procter & Gamble. An impressive performance—yet few people know anything about Darwin Smith. He probably would have liked it that way. Humble and unpretentious, he brought a fierce resolve to his job of rebuilding Kimberly-Clark.

Smith is a perfect example of what we came to call a Level 5 leader: an individual who blends extreme personal humility with intense professional will. We found leaders like this at the helm of every good-to-great company. Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. It isn't that they aren't ambitious; their ambition is just first and foremost for the institution, not themselves.

The term "Level 5" refers to the highest level in a hierarchy of executive capabilities that we identified in our research. These levels are:

- ***Level 1:*** *Highly Capable Individual*—makes productive contributions.
- ***Level 2:*** *Contributing Team Member*—helps achieve group objectives and works effectively on teams.
- ***Level 3:*** *Competent Manager*—Organizes people and resources toward the effective pursuit of objectives
- ***Level 4:*** *Effective Leader*—Catalyzes commitment to a clear and compelling vision and stimulates higher performance
- ***Level 5:*** *Executive*—Builds enduring greatness through a paradoxical blend of personal humility and professional will.

Fully developed Level 5 Leaders embody all five layers of the pyramid. They didn't necessarily move in sequence through them, but all are in operation. The first four are covered in detail elsewhere; we will focus on those at Level 5.

Level 5 leaders are a study in duality: modest and willful, humble and fearless. Think Abraham Lincoln, who never let his ego get in the way of his primary ambition for the larger cause of an enduring great nation. Those who mistook Lincoln's modesty and shy nature as weakness found themselves terribly mistaken, to the scale of over 500,000 lives lost, including Lincoln's own.

One key trait of the Level 5 leaders we studied was their ambition was first and foremost for the company and concern for *its* success rather than for their own riches and personal renown. That led them to set up the company for success long after they were gone. In contrast, the comparison leaders were more concerned with their own reputation for personal greatness, and often failed to set the company up for success in the next generation.

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In contrast to the very "I-centric" style of the comparison leaders, we were struck by how the good-to-great leaders *didn't* talk about themselves. They would talk about the company and the contributions of others as long as we'd like but would deflect discussion about their own contributions.

It wasn't just false modesty. Others who worked with them often made note of the same qualities, using words *like modest, reserved, and self-effacing* to describe them. The good-to-great leaders never wanted to become larger-than-life heroes. They were seemingly ordinary people quietly producing extraordinary results.

During interviews, the good-to-great leaders talked about luck a lot. Luck. What an odd thing to talk about. We were at first puzzled by this emphasis on good luck. Then we began to notice a contrasting pattern in the comparison executives. They credited substantial blame to *bad* luck, frequently bemoaning the difficulties they faced.

The emphasis on luck turns out to be part of a pattern that we came to call *the window and the mirror.* Level 5 leaders look out the window to apportion credit to factors outside themselves when things go well, but look in the mirror to apportion responsibility, never blaming bad luck when things go poorly. The comparison leaders did the opposite.

Level 5 is not just about humility. It is equally about ferocious resolve, a determination to do whatever needs to be done to make the company great. As Smith was rebuilding Kimberly-Clark, he demonstrated that same ferocious resolve when he made the most dramatic decision in the company's history: Sell the mills. Shortly after becoming CEO, Smith and his team concluded that the traditional core business—coated paper—was doomed to mediocrity. But if they launched into the fire of the *consumer* paper-products industry, world-class competition would force it to achieve greatness or perish.

So like the general who burned the boats upon landing, leaving only one option (succeed or die), Smith sold the mills and threw all the proceeds into the consumer business. Many called the move stupid, but 25 years later Kimberly Clark owned Scott Paper outright and beat Procter & Gamble in six of eight product categories. One board member called it the gutsiest move he'd ever seen a CEO make. Level 5 leaders are committed to their company becoming great, whatever that takes. They will do whatever needs to be done.

Chapter 3: First Who…Then What

When we began this project, we expected to find that the first step in taking a company from good to great would be to set a new direction, a new vision and strategy for the company, and then to get people committed and aligned behind that new direction.

We found just the opposite. The first step was to get the right people on the bus (and the wrong people off), and *then* figure out where to drive it. In essence, they said, "I don't really know where we are going, but if we get the right people on the bus, then we'll figure out how to take it someplace great."

The good-to-great leaders understood three simple truths. First, if you begin with "who" rather than "what" you can more easily adapt to a changing world. Second, if you have the right people on the bus, the problem of how to motivate and manage people largely goes away. The right people don't need to be tightly managed or fired up; they are self-motivated. Third, if you have the wrong people, it doesn't matter whether you discover the right direction; you *still* won't have a great company. Great vision without great people is irrelevant.

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In contrast to the good-to-great companies, which built deep and strong executive teams (even knowing that they would lose some to other opportunities) many of the comparison companies followed a “genius with a thousand helpers” model. In this case the company becomes a platform for the talents of an extraordinary individual. The company may have great success—as long as the genius sticks around.

Interestingly, compensation was not a significant factor in helping companies go from good to great. It wasn’t irrelevant—you have to be basically rational and reasonable. But once you have something that makes sense, executive compensation falls away as an important factor. The bottom line is that it isn’t how you compensate your executives, it’s which executives you have to compensate in the first place. The right people will do everything they can to build a great company, not because of what they will get for it, but simply because they can’t imagine settling for anything less.

The good-to-great companies can be tough places to work. If you don’t have what it takes, you probably won’t last long. But they aren’t ruthless—they are rigorous. The distinction is critical. To be rigorous means consistently applying exacting standards at all times and at all levels, *especially in upper management.* Three practical disciplines related to being rigorous rather than ruthless emerged from our research:

1. **When in doubt, don’t hire—keep looking.** No company can grow revenues consistently faster than its ability to get enough of the right people to implement that growth.

2. **When you know you need to make a people change, act.** The moment you feel the need to tightly manage someone, you’ve made a hiring mistake. The best people don’t need to be managed. Guided, led, taught—yes. But not tightly managed. Letting the wrong people hang around is unfair to the right people, who end up having to compensate for other’s inadequacies. That doesn’t mean rush to judgment; the best leaders often invested a lot of effort in making the determination, but once the answer was clear, they acted.

3. **Put your best people on your biggest opportunities, not your biggest problems.** Managing your problems can make you good, whereas building your opportunities is the only way to become great.

Chapter 4: Confront the Brutal Facts (Yet Never Lose Faith)

Going from good to great is the result of a series of good decisions, well executed and accumulated on top of one another. What was it about the good-to-great companies that enabled them to make more good decisions than others, especially on the really big choices (like selling the mills)?

The first distinctive is that they infused the entire decision-making process with the brutal facts of reality. When you start with an honest and diligent effort to determine the truth of the situation, the right decisions often become self-evident. Even if they don’t, one thing is certain: you absolutely cannot make a series of good decisions without first confronting the brutal facts.

In some companies the culture doesn’t allow the pursuit of truth. Sometimes people are more interested in protecting their positions; other times the top leader dominates the company so much that people defer to him rather than the truth.

Isn't "confronting the brutal facts" inherently demotivating? No. If you have the right people on the bus, they will be self-motivated. The question then is: "How do you manage in such a way as not to de-motivate people?" And one of the single most demotivating actions you can take is to hold out false hopes or ignore reality.

How do you create a climate where truth is heard? Here are three basic practices:

1. **Lead with questions, not answers.** The best executives said their management meetings were often just about "trying to understand" what the reality around them was.

2. **Engage in dialogue and debate, not coercion.** All the good-to-great companies had a penchant for intense dialog, heated discussions, and loud debate. Not to force people to accept a position, but to allow people to freely express themselves as they pursue the best answers.

3. **Conduct autopsies without blame.** In 1978, Philip Morris acquired the Seven-Up company, only to sell it eight years later at a loss. In our interviews with the Philip Morris executives, we were struck by how they all brought up the debacle on their own and discussed it openly. But as much as they talked about it, no one pointed a finger of blame at anyone. The only exception was the CEO, Joe Cullman—a Level 5 leader.

The important issue here is that the companies looked honestly at their reality, no matter how bleak it looked. They saw no gain in white-washing things or minimizing problems. At the same time, they never let go of their confidence that they would prevail in the end. In fact, one of the reasons they would prevail is *because* they were facing reality. They could then move forward with confidence.

Chapter 5: The Hedgehog Concept

In his essay "The Hedgehog and the Fox" Isaiah Berlin divided the world into two types, based on the idea "the fox knows many things, but the hedgehog knows one big thing." The fox can come up with many ways to trap or attack the hedgehog, who responds the same way every time—rolling into a perfect little ball, with spikes pointing out in all directions—and always wins.

Hedgehogs simplify the world into a single organizing idea, a basic principle that guides everything. Good-to-great companies operate with their own hedgehog concept. All of them developed a very simple concept that they used as a frame of reference for all their decisions, and this understanding coincided with breakthrough results.

A Hedgehog Concept is a simple crystalline concept that flows from deep understanding about the intersection of the following three circles:

1. What you can be the best in the world at.

2. What drives your economic engine.

3. What you are deeply passionate about.

Consider the following personal analogy. Suppose you were able to construct a work life that meets the following three tests. First, you are doing work you have a God-given talent for ("I feel like I was just born to do this"). Second, you are well paid for what you do. Third, you are doing work you are passionate about and absolutely love to do, enjoying the process for its own sake. If you could take the intersection of those three, overlapping circles and turn it into a simple concept that guided your life choices, you would have your own personal Hedgehog Concept.

Note: the Hedgehog Concept is not about setting a goal to be the best; it is an *understanding* of what you *can* be the best at. Few companies actually understand, with real clarity, what they actually have the potential to be the best at (and just as importantly, what they *cannot* be the best at).

Good-to-great companies all identified something they would use to measure their economics. Walgreen's changed its focus from profit per store to profit *per customer visit*. That changed where they put stores and what kinds of things they offered at them.

The executives at the good-to-great companies often had an intensity and passion that surprised us. They didn't say, "OK, folks, let's get passionate about what we do." They went the other way entirely. *We should only do those things we can get passionate about.* That informed all they did. At Gillette, a top business school graduate wasn't hired because she didn't show enough passion for deodorant.

It doesn't matter if you don't understand why someone would be passionate about something; the point is that *they* felt passionate about what they were doing.

Once a company identifies its Hedgehog Concept, the world begins to get simpler and clearer. Decisions are easier, and goals and strategies are rooted in understanding rather than bravado. Many of the comparison companies displayed a mindless pursuit of growth, saying things like "betting that size equals success." In contrast, none of the good-to-great companies focused obsessively on growth. Yet they created sustained, profitable growth far more often than their comparisons.

The Hedgehog Concept is a turning point in the journey from good to great. Despite its importance, it would be a mistake to think you can do a quick off-site and come up with a deep understanding. It took four years, on average, for the good-to-great companies to clarify their Hedgehog Concept. It is a *process*, not an event.

The essence of the process is to get the right people engaged in vigorous dialog and debate, infused with the brutal facts and guided by questions formed from the three circles. It took plenty of time, but once the Concept was fully grasped, the transition to greatness followed within a few years.

Chapter 6: A Culture of Discipline

As a company grows and becomes more complex, it begins to trip over its own success—too many new people, too many new customers, workers, orders, products, etc. What was once fun becomes an unwieldy ball of disorganized stuff. Then the professional managers step in and bring order, but also often kill the entrepreneurial spirit.

It is possible to avoid the ensuing death spiral. Understand that bureaucracy is there to compensate for incompetence and lack of discipline—a problem that largely goes away if you have the right people in the first place. Most bureaucracies are built to manage the small percentage of wrong people on the bus, which then increases the number of wrong people, which in turn drives away the right people, which increases the need for more bureaucracy.

The alternative is to avoid bureaucracy and instead create a culture of discipline. The good-to-great companies built a consistent system with clear constraints, but they also gave people freedom and responsibility within the framework of that system. They hired self-disciplined people who didn't need to be managed, and then managed the system, not the people.

In a sense, this book is about creating a culture of discipline. It all starts with disciplined *people*—getting the right people on the bus, not trying to fix the wrong ones. Next comes disciplined *thought*; having the discipline to confront the brutal facts while retaining resolute faith that you can and will become great. Most importantly, you need the discipline to persist in the search until you identify your Hedgehog Concept. Finally, we have disciplined *action*—doing only those things that fit with the Hedgehog concept.

The good-to-great companies at their best followed a simple mantra: *Anything that does not fit with our Hedgehog Concept, we will not do.* We will not launch unrelated businesses. We will not make unrelated acquisitions. We will not do unrelated joint ventures. If it doesn't fit, we don't do it. Period.

In contrast, we found a lack of discipline to stay within the three circles as a key factor in the demise of nearly all the comparison companies. Every comparison company either lacked the discipline to understand its three circles, or lacked the discipline to stay within them.

It takes discipline to say "No, thank you" to big opportunities. The fact that something is a "once-in-a-lifetime opportunity" is irrelevant if it doesn't fit within the three circles. Beyond that, many of those who built the good-to-great companies made just as much use of "stop doing" lists as "to-do" lists. They displayed a remarkable discipline to unplug all sorts of extraneous junk.

Chapter 7: Technology Accelerators

What was the role of technology in helping a company go from good to great? We were surprised to find that fully 80% of the good-to-great executives we interviewed didn't even mention technology as one of the top five factors in making the transition. Not that they ignored it; they were often technologically sophisticated and vastly superior to their comparisons.

The difference is in the way they approached it. None saw it as some sort of "magic bullet" that would bring greatness or be a solution to all their problems, nor did they embrace it out of a fear of falling behind the rest of the world. Technology was a servant that accelerated momentum after they hit breakthrough, but wasn't the cause of the breakthrough.

The good-to-great companies started with their Hedgehog concept. They asked questions like, "Does the technology fit with your Hedgehog Concept?" If a technology didn't fit squarely within their three circles, they would ignore all the hype and fear and just go about their business. However, once they understood which technologies were relevant, they became fanatical and creative in the application of those technologies.

When approached that way, technology became a driver, an accelerator of development. But it always served another purpose; being tech-savvy or advanced was never a goal in and of itself.

Walgreen's is a perfect example. In the early part of this decade when the internet was beginning to transform how companies did business, Walgreen's didn't jump on the bandwagon. They spent a lot of time thinking and debating how it could be used in a way that fit their own particular Hedgehog Concept. They went slowly, and then began to find ways to tie the internet into their convenience concept. You could fill your prescription on-line and then pick it up at the drive-through. The system was linked so you could use any Walgreen's anywhere in the country. Eventually they developed a sophisticated, state-of-the-art website. Each of those things accelerated growth, because it was linked directly to their Hedgehog Concept. From its low point in 1999 at the depths of the dot-com scare, Walgeen's stock price nearly doubled within a year.

No technology by itself can ignite a shift from good to great. No technology can make you a Level 5 leader, turn the wrong people into the right people, or instill the discipline to face the brutal facts of reality. But once those things are in place, technology can help you move forward more efficiently when it is linked to, and is serving, a higher purpose.

Chapter 8: The Flywheel and the Doom Loop

Picture a huge, heavy flywheel—a massive metal disk mounted on an axle. Now imagine that your task is to get the flywheel rotating as fast and long as possible.

Pushing with great effort, you get the flywheel to inch forward. After a few hours it completes one turn. You keep pushing, and it slowly begins to go faster. It slowly…so slowly…begins to build momentum, until at some point—breakthrough! The momentum of the thing kicks-in in your favor, and its weight begins to work for you. You are pushing no harder than at the beginning, but it goes faster and faster, building on the work that was done earlier.

Now suppose someone came and said, "What was the one big push that caused this thing to go so fast?" You wouldn't be able to answer; it's a nonsensical question. It was *all* of them added together, moving in a consistent direction, that brought the results.

The flywheel image captures the feel of what it was like inside the good-to-great companies. No matter how dramatic the end result, the transformation from good to great never happened in one fell swoop. There was not a single defining action, no grand program, no one innovation. Good to great comes about by a cumulative process—step by step, action by action, decision by decision—that adds up to spectacular results.

You might not understand that if you just look at the media accounts of the successful companies. The articles are usually written after the breakthrough happens and the great results are pouring in. From the outside it looks quite dramatic. Unfortunately, we've allowed the way transitions look from the *outside* to drive our perception of what they must feel like to those going through them on the *inside*. From the outside, they *look* dramatic, even revolutionary. But from the inside, they *feel* completely different, more like an organic development process.

The good-to-great companies had no name for their transformations. There was no launch event, no tag line, nothing like that. Some executives said they weren't even aware that a major transformation was under way until they were well into it. *There was no miracle moment!* Rather, it was a quiet, deliberate process of figuring out what needed to be done to create the best future results and then taking those steps, one after the other, turn by turn of the flywheel. After an extended period of time, they inevitably hit a point of breakthrough.

One of the surprises that we discovered was that the good-to-great companies didn't put a lot of effort on "creating alignment." We learned that under the right conditions, the problems of commitment, alignment, motivation and change just melt away.

The way to get people lined up behind a bold new vision is to turn the flywheel in a way consistent with that vision, and then to say, "See what we are doing, and how well it's working? Extrapolate from that, and that's where we are going." Think about it for a minute. What do the right people want more than anything else? They want to be part of a winning team. They want to contribute to producing visible, tangible results, and feel the excitement of being involved in something that *works*.

The comparison companies often looked for a new program or initiative, often launched with great fanfare, aimed at "motivating the troops," only to see the program fail to produce sustained results. Often they would try to jump into breakthrough via an acquisition or merger. It never worked. They never identified their Hedgehog Concept, so the acquisitions always were somewhat random. (The good-to-great companies also made acquisitions, but had a much higher rate of success with them, which usually took place *after* the development of their Hedgehog concept. The acquisitions became accelerators of flywheel momentum, not causes).

When I look over the good-to-great transformations, the one word that keeps coming to mind is *consistency*. It is only through consistency over time, through multiple generations, that you get maximum results.

Chapter 9: From Good To Great to Built To Last

When we began the *Good To Great* research project, we had a dilemma: How should we think about the ideas in *Built To Last* while doing this project?

Built To Last answered the question, "What does it take to start and build an enduring great company from the ground up?" Now that the project is done, we can return to ask, "How, if at all, do the two studies relate?" I now offer the following four conclusions:

1. The enduringly great companies we looked at in *Built To Last* followed the good-to-great framework; they just began that way as entrepreneurs in small, early-stage companies.

2. I now see *Good To Great* as a prequel to *Built To Last,* not a sequel. Start with the concepts in *Good To Great* and then apply the findings from *Built To Last* to build an enduring great company.

3. To become an enduringly great company, apply the central concept from *Built To Last*: Discover your core values and purpose beyond just making money (core ideology) and combine this with the dynamic of preserve the core/stimulate progress.

4. *Good To Great* answers a fundamental question raised, but not answered in *Built To Last:* What is the difference between a "good" BHAG (Big Hairy Audacious Goal) and a "bad" BHAG?

A BHAG is a huge and daunting goal—like a big mountain to climb. It is clear, compelling, and people "get it" right away. A BHAG serves as a unifying focal point of effort, galvanizing people and creating team spirit as people strive toward a finish line.

Bad BHAGs, are set with *bravado;* good BHAGs are set with *understanding*. When you combine a quiet understanding of the three circles with the audacity of a BHAG, you get a powerful, almost magical mix.

A superb example of this comes from Boeing in the 1950's. Until then, Boeing focused on building for the military; they had virtually no presence in the commercial aircraft market. But in the 1950's they saw an opportunity to leapfrog McDonnell Douglas by marrying their experience with large aircraft to their understanding of jet engines. Led by a

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Level 5 leader named Bill Allen, they decided to spend a quarter of the company's entire net worth to build a prototype jet that could be used for commercial aviation. They built the 707 and launched Boeing on a bid to become the leading commercial aviation company in the world.

Thirty years later, after producing the 707, 727, 737, 747, and 757, Boeing stood as the unquestioned greatest company in the commercial airplane industry. Here is the key point: Boeing's BHAG, while huge and daunting, was not a random goal. It was a goal that made sense within the context of the three circles. They understood that they *could* become the best jet manufacturer in the world; the shift would improve their economics by increasing their profit; and the Boeing people were passionate about the idea. They acted with understanding, not bravado.

The other thing that creates an enduringly great company is a set of core values. Enduringly great companies don't exist merely to deliver profits. Profits and cash flow become like blood and water to a healthy body: they are essential for life, but they are not the point of life.

In our interview with Bill Hewlett, one of the founders of Hewlett-Packard, we asked him what he was most proud of in his long career. He said, "I'm probably most proud of having helped create a company that by virtue of its values, practices, and success has had a tremendous impact on the way companies are managed around the world. The "HP Way," as it became known, reflected a deeply held set of core values that distinguished the company more than any of its products.

A company that sets BHAGs in line with its Hedgehog Concept, while maintaining a set of core values, can become enduringly great.

When all these pieces come together, not only does your work move toward greatness, but so does your life. For, in the end, it is impossible to have a great life unless it is a meaningful life. And it is very difficult to have a meaningful life without meaningful work. Perhaps you will gain that rare tranquility that comes from knowing that you've had a hand in creating something that makes a contribution. Indeed, you might even gain that deepest of all satisfactions: knowing that your short time here on this earth has been well spent, and that it mattered.