



**Good to Great
Why Some Companies Make the Leap...
And Others Don't**

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Author's Bio: Jim Collins is co-author of *Built to Last*, a national best seller with over a million copies in print. A student of enduring great companies, he serves as a teacher to leaders throughout the corporate and social sectors. Formerly a faculty member at the Stanford University Graduate School of Business, where he received the Distinguished Teaching Award, Jim now works from his management research laboratory in Boulder, Colorado.

Author's big thought: The findings of the *Good to Great* study will surprise many readers and shed light on virtually every area of management strategy and practice. Some of the key concepts fly in the face of our modern business culture and will (comments Collins) quite frankly, upset some people.

Book notes:

Chapter 1- Good is the Enemy of Great

- Truly great companies, for the most part, have always been great. The vast majority of good companies remain just that- good, but not great. The question is, can a good company become a great company, and if so, how?
- Collins and his research team identified companies that made the leap from good results to great results and sustained those results for at least fifteen years. They compared those companies to a carefully selected control group of comparison companies that failed to make the leap, or if they did, failed to sustain it. They then compared the good-to-great companies to the comparison companies to discover the essential and distinguishing factors at work.

- The good-to-great companies that made the final cut into the study attained extraordinary results; averaging cumulative stock returns 6.0 times the general market in the fifteen years following their transition points.
- Their five year quest yielded many insights, a number of them surprising and quite contrary to conventional wisdom, but one giant conclusion stands above the others: They believe that almost any organization can substantially improve its stature and performance, perhaps even become great, if it conscientiously applies the framework of ideas they've uncovered.

- *Phase 1: The search* - their first task was to find companies that showed the following basic pattern: fifteen-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next fifteen years. Eventually they found eleven good-to-great companies.

- *Phase 2: Compared to What?*
- Next they took perhaps the most important step in the entire research effort: distilling the good-to-great companies to a carefully selected set of "comparison companies". What did the good-to-great companies share in common that *distinguished* them from the comparison companies?
- They selected two sets of comparison companies. The first set consisted of "direct comparisons" - companies that were in the same industry as the good-to-great companies with the same opportunities and similar resources at the time of transition, but that showed no leap from good to great.
- The second consisted of "unsustained comparisons" - companies that made a short-term shift from good to great but failed to maintain the trajectory - to address the question of sustainability.

- *Phase 3: Inside the Black Box*
- They systematically coded all the material into categories, such as strategy, technology, leadership, and so forth. Then they interviewed most of the good-to-great executives who held key positions of responsibility during the transition era. They also initiated a wide range of qualitative and quantitative analyses.
- It is important to understand that they developed all of the concepts in this book by making *empirical deductions directly from the data*. They did not begin this project with a theory to test or prove. They sought to build a theory from the ground up, derived directly from the evidence.
- The core of their method was a systematic process of contrasting the good-to-great examples to the comparisons, always asking, "What's different?"
- What they didn't find turned out to be some of the best clues to the inner workings of good to great. For example:

- Larger than life celebrity leaders who ride in from the outside are negatively correlated with taking a company from good to great.
- They found no systematic pattern linking specific forms of executive compensation to the process of going from good to great.
- Strategy per se did not separate the good-to-great companies from the comparison companies.
- Technology and technology-driven change has virtually nothing to do with igniting a transformation from good to great.
- Mergers and acquisitions play virtually no role in igniting a transformation from good to great.
- The good-to-great companies paid scant attention to managing change, motivating people, or creating alignment.
- The good-to-great companies had no name, tag line, launch event. Or program to signify their transformations.

- *Phase 4: Chaos to Concept*
- To go from all the data in the final findings in this book was an iterative process of looping back and forth, developing ideas and testing them against the data, revising the ideas, building a framework, seeing it break under the weight of evidence, and rebuilding it yet again.
- Each finding in the final framework met a rigorous standard before the research team would deem it significant.

The Concepts

1. First who, then what?

First get the right people on the bus and get the wrong people off the bus, and get the right people in the right seats, then figure out where to drive it. The right people are our most important asset. They'll know what to do!

2. Confront the brutal facts -- yet never lose faith.

Confront the most brutal facts of your current reality, whatever they might be, without losing faith in the end of the story.

3. The Hedgehog Concept

Simplicity within three circles:

- Passion for what you do
- Doing what you can be the best at
- Primary economic driver

We must transcend the curse of competence. If you cannot be the best in the world at your core business, then your core business absolutely cannot form the basis of a great

company. It must be replaced with a simple concept that reflects deep understanding of three intersecting circles.

4. Form a culture of discipline.

When you have disciplined people you don't need hierarchy. When you have disciplined thought, you don't need bureaucracy. When you have disciplined action, you don't need excessive controls. When you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance.

5. Technology accelerators.

Good-to-great companies think differently about the role of technology. They never use technology as the primary means of igniting a transformation. Yet, paradoxically, they are pioneers in the application of carefully selected technologies.

6. The flywheel and doom loop.

Those who launch revolutions, dramatic change programs, and wrenching restructurings will almost certainly fail to make the leap from good-to-great. The good-to-great transformations never happened in one fell swoop. The process resembles pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond.

7. Five levels of leadership:

Level 1: Highly capable individual

Makes productive contributions through talent, knowledge, skills, and possesses good work habits.

Level 2: Contributing team member

Contributes individual capabilities to the achievement of group objectives and works effectively with others in a group setting.

Level 3: Competent manager

Organizes people and resources toward the effective and efficient pursuit of predetermined objectives.

Level 4: Effective leader

Analysis, commitment to and vigorous pursuit of a clear and compelling vision, stimulating higher performance standards.

Level 5: Executive

Builds enduring greatness through a paradoxical blend of personal humility and professional will.

Chapter 2: Level 5 leadership

- Every good-to-great company had Level 5 leadership during the pivotal transition years.
- "Level 5" refers to a five-level hierarchy of executive capabilities, with Level 5 at the top. Level 5 leaders embody a paradoxical mix of personal humility and professional will. They are ambitious, to be sure, but ambitious first and foremost to the company, not themselves.
- Level 5 leaders set up their successors for even greater success in the next generation, whereas egocentric Level 4 leaders often set up their successors for failure.
- Level 5 leaders display a compelling modesty, are self-effacing and understated. In contrast, two thirds of the comparison companies had leaders with gargantuan personal egos that contributed to the demise or continued mediocrity of the company.
- Level 5 leaders are fanatically driven, infected with an incurable need to produce sustained *results*. They are resolved to do whatever it takes to make the company great, no matter how big or hard the decisions.
- Level 5 leaders display a workmanlike diligence—more plow horse than show horse.
- Level 5 leaders look out the window to attribute success to factors other than themselves. When things go poorly, however, they look in the mirror and blame themselves, taking full responsibility. The comparison CEOs often did just the opposite—they looked in the mirror to take credit for success, but out the window to assign blame for disappointing results.
- One of the most damaging trends in recent history is the tendency (especially by boards of directors) to select dazzling, celebrity leaders and to de-select potential Level 5 leaders. The author believes that potential Level 5 leaders exist all around us, if we just know what to look for, and that many people have the potential to evolve into Level 5.
- Larger-than-life, celebrity leaders who ride in from the outside are negatively correlated with going from good to great. Ten of eleven good-to-great CEOs came from *inside* the company, whereas the comparison companies tried outside CEOs six times more often. . Level 5 leaders attribute much of their success to good luck, rather than personal greatness. . They were not looking for Level 5 leadership in their research, or any thing like it, but the data was overwhelming and convincing. It is an empirical, not an ideological, finding.

Chapter 3: First Who...then What

- The good-to-great leaders began the transformation by first getting the right people on the bus (and the wrong people off the bus) and then figured out where to drive it.
- The key point of this chapter is *not* just the idea of getting the right people on the team. The key point is that "who" questions come before "what" decisions—before

vision, before strategy, before organization structure, before tactics. *First who, then what*-as a rigorous discipline, consistently applied.

- The comparison companies frequently followed the "genius with a thousand helpers" model-a genius leader who sets a vision and then enlists a crew of highly capable "helpers" to make the vision happen. This model fails when the genius departs.
- The good-to-great leaders were rigorous, not ruthless, in people decisions. They did not rely on layoffs and restructuring as a primary strategy for improving performance. The comparison companies used layoffs to a much greater extent.
- They uncovered three practical disciplines for being rigorous in people decisions:
 - When in doubt, don't hire-keep looking. (*Corollary: A company should limit its growth based on its ability to attract enough of the right people.*)
 - When you know you need to make a people change, act. (*Corollary: First be sure you don't simply have someone in the wrong seat.*)
 - Put your best people on your biggest opportunities, not your "biggest problems. (*Corollary: If you sell off your problems, don't sell off your best people.*)
- Good to-great management teams consist of people who debate vigorously in search of the best answers, yet who unify behind decisions, regardless of parochial interests.
- We found no systematic pattern linking executive compensation to the shift from good to great. The purpose of the compensation is not to motivate the right behaviors from the wrong people, but to get and keep the right people in the first place.
- The old adage "People are you most important asset" is wrong. People are not your most important asset- the *right* people are.
- Whether someone is the "right person" has more to do with character traits, and innate capabilities than with specific knowledge, background, or skills.

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

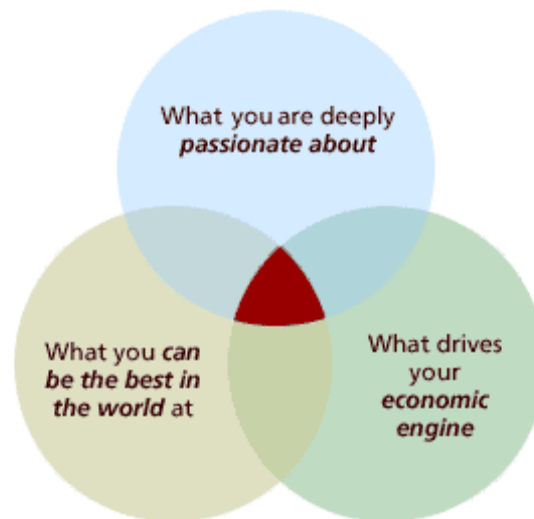
- All good-to-great companies began the process of finding a path to greatness by confronting the brutal facts of their current reality.
- When you start with an honest and diligent effort to determine the truth of your situation, the right decisions often become self-evident. It is impossible to make good decisions without infusing the entire process with an honest confrontation of the brutal facts.
- A primary task in taking a company from good to great is to create a culture wherein people have a tremendous opportunity to be heard and, ultimately, for the truth to be heard.
- Creating a climate where the truth is heard involves four basic practices:
 1. Lead with questions, not answers.
 2. Engage in dialogue and debate, not coercion.
 3. Conduct autopsies, without blame.

4. Build red flag mechanisms that turn information into information that cannot be ignored.

- The good-to-great companies faced just as much adversity as comparison companies, but responded to that adversity differently. They hit the realities of their situation head-on. As a result, they emerged from adversity even stronger.
- A key psychology for leading from good to great is the Stockdale Paradox: Retain absolute faith that you can and will prevail end, regardless of the difficulties, AND *at the same time* confront the most brutal facts of your current reality, whatever they might be.
- Charisma can be as much a liability as an asset, as the strength of your leadership personality can deter people from bringing you brutal facts.
- Leadership does not begin just with vision. It begins with getting people to confront the brutal facts and to act on the implications.
- Spending more time and energy trying to "motivate" people is a waste of effort. The real question is not "How do we motivate our people?" if you have the right people, they will be self-motivated. The key is to not *de-motivate* them. One of the primary ways to de-motivate people is to ignore the brutal facts of reality.

Chapter 5: The Hedgehog Concept (Simplicity within the Three Circles)

- To go from good to great requires a deep understanding of three intersecting circles translated into a simple, crystalline concept (the Hedgehog Concept):



Three circles of the Hedgehog Concept

- The key is to understand what your organization *can* be the best in the world at, and equally important what it *cannot* be the best at not what it "wants" to be the best at. The Hedgehog Concept is not a goal, strategy, or intention; it is an *understanding*.
- If you cannot be the best in the world at your core business, then your core business cannot form the basis of your Hedgehog Concept.
- The "best in the world" understanding is a much more severe standard than a core competence. You might have a competence but not necessarily have the capacity to be truly the best in the world at that competence. Conversely, there may be activities at which you could become the best in the world, but at which you have no current competence.
- To get insight into the drivers of your economic engine, search for the one denominator (profit per x or, in the social sector, cash flow per x) that has the single greatest impact.
- Good-to-great companies set their goals and strategies based on understanding; comparison companies set their goals and strategies based on bravado.
- Getting the Hedgehog Concept is an iterative process. The Council can be a useful device.

Unexpected Findings

- The good-to-great companies are more like hedgehogs-simple, dowdy creatures that know "one big thing" and stick to it. The comparison companies are more like foxes-crafty, cunning creatures that know many things yet lack consistency.
- It took four years on average for the good-to-great companies to get a Hedgehog Concept.
- Strategy per se did not separate the good-to-great companies from the comparison companies. Both sets had strategies, and there is no evidence that the good-to-great companies spent more time on strategic planning than the comparison companies.
- You absolutely do not need to be in a great industry to produce sustained great results. No matter how bad the industry, every good-to-great company figured out how to produce truly superior economic returns.

Chapter 6: A Culture of Discipline

- Sustained great results depend upon building a culture full of self-disciplined people who take disciplined action, fanatically consistent with the three circles.
- Bureaucratic cultures arise to compensate for incompetence and lack of discipline, which arise from having the wrong people on the bus in the first place. If you get the right people on the bus, and the wrong people off, you don't need stultifying bureaucracy.

- A culture of discipline involves a duality. On the one hand, it requires people who adhere to a consistent system; yet, on the other hand, it gives people freedom and responsibility within the framework of that system.
- A culture of discipline is not just about action. It is about getting disciplined *people* who engage in disciplined *thought* and who *then* take disciplined action.
- The good-to-great companies appear boring and pedestrian looking in from the outside, but upon closer inspection, they're full of people who display extreme diligence and a stunning intensity (they "rinse their cottage cheese").
- Do not confuse a culture of discipline with a tyrant who disciplines- they are very different concepts, one highly functional, the other highly dysfunctional. Savior CEOs who personally discipline through sheer force of personality usually fail to produce sustained results. The single most important form of discipline for sustained results is fanatical adherence to the Hedgehog Concept and the willingness to shun opportunities that fall outside the three circles.

Unexpected Findings

- The more an organization has the discipline to stay within its three circles, with almost religious consistency, the *more* it will have opportunities for growth.
- The fact that something is a "once-in-a-lifetime opportunity" is irrelevant, unless it fits within the three circles. A great company will have *many* once-in-a-lifetime opportunities.
- The purpose of budgeting in a good-to-great company is not to decide how much each activity gets, but to decide which arenas best fit with the Hedgehog Concept and should be *fully funded* and which should *not be funded at all*.
- "Stop doing" lists are more important than "to do" lists.

Chapter 7: Technology Accelerators

- Good-to-great organizations *think* differently about technology and technological change than mediocre ones.
- Good-to-great organizations avoid technology fads and bandwagons, yet they become pioneers in the application of *carefully selected* technologies.
- The key question about any technology is, Does the technology fit directly with your Hedgehog Concept? If yes, then you need to become a pioneer in the application of that technology. If no, then you can settle for parity or ignore it entirely.
- The good-to-great companies used technology as an *accelerator* of momentum, not a creator of it. *None* of the good-to-great companies began their transformations with pioneering technology, yet they *all* became pioneers in the application of technology once they grasped how it fit with their three circles and after they hit breakthrough.

- You could have taken the exact same leading-edge technologies pioneered at the good-to-great companies and handed them to their direct comparisons for free, and the comparisons still would have failed to produce anywhere near the same results.
- How a company reacts to technological change is a good indicator of its inner drive for greatness versus mediocrity. Great companies respond with thoughtfulness and creativity, driven by a compulsion to turn unrealized potential into results; mediocre companies react and lurch about, motivated by fear of being left behind.

Unexpected Findings

- The idea that technological change is the principal cause in the decline of once-great companies (or the perpetual mediocrity of others) is not supported by the evidence. Certainly, a company can't remain a laggard and hope to be great, but technology by itself is never a primary root cause of either greatness or decline.
- Across eighty-four interviews with good-to-great executives, fully 80 percent didn't even mention technology as one of the top five factors in the transformation. This is true even in companies famous for their pioneering application of technology, such as Nucor.
- "Crawl, walk, run" can be a very effective approach, even during times of rapid and radical technological change.

Chapter 8: The Flywheel and the Doom Loop

- Good-to-great transformations often look like dramatic, revolutionary events to those observing from the outside, but they feel like organic, cumulative processes to people on the inside. The confusion of end outcomes (dramatic results) with process (organic and cumulative) skews our perception of what really works over the long haul.
- No matter how dramatic the end result, the good-to-great transformations never happened in one fell swoop. There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment.
- Sustainable transformations follow a predictable pattern of buildup and breakthrough. Like pushing on a giant, heavy flywheel, it takes a lot of effort to get the thing moving at all, but with persistent pushing in a consistent direction over a long period of time, the flywheel builds momentum, eventually hitting a point of breakthrough.
- The comparison companies followed a different pattern, the doom loop. Rather than accumulating momentum-turn by turn of the flywheel-they tried to skip buildup and jump immediately to breakthrough. Then, with disappointing results, they'd lurch back and forth, failing to maintain a consistent direction. The comparison companies frequently tried to create a breakthrough with large, misguided acquisitions. The good-to-great companies, in contrast, principally used large acquisitions *after* breakthrough, to accelerate momentum in an already fast-spinning flywheel.

Unexpected Results

- Those inside the good-to-great companies were often unaware of the magnitude of their transformation at the time; only later, in retrospect, did it become clear. They had no name, tag line, launch event, or program to signify what they were doing at the time.
- The good-to-great leaders spent essentially no energy trying to "create alignment," "motivate the troops," or "manage change." Under the right conditions, the problems of commitment, alignment, motivation, and change largely take care of themselves. Alignment principally follows *from* results and momentum, not the other way around.
- The short-term pressures of Wall Street were not inconsistent with following this model. The flywheel effect is not in conflict with these pressures. Indeed, it is the key to managing them.

Chapter 9: From Good to Great to Build to Last

- Built to Last, based on a six year research project conducted at Stanford Business School in the early 1990s, answered the question, What does it take to start and build an enduring great company from the ground up.
- They sought to identify the essential distinction between great companies and good companies as they endure over decade, even centuries.
- Five years later, with this book complete the two books can be looked at in the context of each other. Surveying across the two studies, the author offers the following four conclusions:
 1. Leaders of the enduring great companies from Built to Last followed the good-to-great framework. They did so as entrepreneurs in small early-stage enterprises.
 2. He sees *Good to Great* not as a sequel to *Built to Last* but as a prequel.
 3. To make the shift from a company with sustained great results to an enduring great company of iconic stature, 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 and stimulate progress.
 4. A tremendous resonance exists between the two studies; the ideas from each enrich and inform the ideas of the other.

Recommendation: *Good to Great* is a business classic. If there were only one book you might ever read when becoming a leader, this should be it.



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Frumi is a trusted advisor and leadership coach. She has a passion for helping business leaders, especially entrepreneurs and financial services leaders. She helps them find clarity out of chaos, communicate effectively with their teams, and accelerate their business results. Frumi is a former CEO and CFO herself and has an MBA and a PhD in business administration. She is known as a catalyst for change and when Frumi shows up with dynamite and band aids, change is bound to happen!