Good to Great

Jim Collins
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This book is about what separates the great companies from the good companies. The author describes his work as a search for timeless principles – the enduring physics of great organizations – that will remain true and relevant no matter how the world changes around us. The specific application might change (the engineering), but certain immutable laws of organized human performance (the physics) will endure.

Good is the enemy of great. Most companies never become great. They only remain good. Truly great companies, for the most part, have always been great. And the vast majority of good companies remain just that – good, but not great.

The author makes some pertinent observations, based on his research:

- Larger-than-life, celebrity leaders who ride in from the outside are *negatively* correlated with taking a company from good to great.

- There is no systematic pattern linking specific forms of executive compensation to the process of going from good to great.

- Strategy per se, does not separate the good-to-great companies from the comparison companies.

- The good-to-great companies do not focus principally on what to *do* to become great. They focus equally on what *not* to do and what to *stop* doing.

- Technology and technology-driven change have virtually nothing to do with igniting a transformation from good to great. Technology can *accelerate* a transformation, but technology cannot *cause* a transformation.

- Mergers and acquisitions play virtually no role in igniting a transformation from good to great. Two big mediocre entities joined together never make one great company.

- The good-to-great companies pay scant attention to managing change, motivating people, or creating alignment. Under the right conditions, the problems of commitment, alignment, motivation, and change do not have to be dealt with separately.

- The good-to-great companies have no name, tag line, launch event, or program to signify their transformations. Indeed, some were unaware of the magnitude of the transformation at the time. Only later, in retrospect, did it become clear. They produced a truly revolutionary leap in results, but *not* by a revolutionary process.

- The good-to-great companies are not, by and large, in inherently attractive industries. In fact, some are in terrible industries. Greatness is not a function of circumstances. Greatness, is largely a matter of conscious choice.

- Compared to high-profile leaders with big personalities who make headlines and become celebrities, the good-to-great leaders are self-effacing, quiet, reserved, even shy. These leaders are a paradoxical blend of personal humility and professional will.

- Good-to-great leaders *first* get the right people on the bus, the wrong people off the bus, and the right people in the right seats. Then they figure out where to drive it. These leaders know that people are *not* the most important asset. The *right* people are.

- Every good-to-great company embraces unwavering faith that it can prevail in the end, regardless of the difficulties. At the same time, such companies have the discipline to confront the hard reality, however unpleasant it might be.

- Going from good to great implies a better understanding of competence. Just because something is a company's core business, or because it has been doing it for years does not necessarily mean it can be the best in the world at it. And if it cannot be the best in the world in its core business, then its core business cannot form the basis of a great company.

- All companies have a culture, some companies have discipline, but few companies have a *culture of discipline.* When a company has disciplined people, it does not need hierarchy. When a company has disciplined thought, it does not need bureaucracy. When it has disciplined action, it does not need excessive controls. A culture of discipline combined with entrepreneurship, leads to great performance.

Level 5 Leadership

The good-to-great companies have what the author calls Level 5 leaders. These leaders channel attention and focus away from themselves into the larger goal of building a great company. It's not that Level 5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious – but their ambition is first and foremost for the institution, not themselves.

The good-to-great leaders are quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing and understated. The good-to-great leaders do not aspire to become larger-than-life heroes, or unreachable icons. They are seemingly ordinary people, quietly producing extraordinary results.

Level 5 leaders apportion credit to factors outside themselves when things go well and blame themselves, not bad luck when things go wrong.

The author lists the attributes of Level 5 leaders:

- "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, but for the company, not for themselves.

- Level 5 leaders set up their successors for even greater success in the next generation.

- Level 5 leaders display a compelling modesty, are self-effacing and understated.

- Level 5 leaders are fanatically driven, infected with an incurable need to produce sustained results. They do whatever it takes to make the company great, no matter how big or hard the decisions.

- Level 5 leaders display a workmanlike diligence.

Confront the brutal facts

Breakthrough results come about by a series of good decisions, diligently executed and accumulated one on top of another. The good-to-great companies do not have a perfect track record. But on the whole, they make many more good decisions than bad ones. The good companies also make many more good decisions than the comparison companies. On the really big choices, they are remarkably on target. The good-to-great companies infuse the entire process with the brutal facts of reality. People confront reality and do not hesitate to talk about it in front of their leaders.

How can a company create a climate where the truth is heard? The author offers 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

The Stockdale Paradox

Companies must retain faith that they will prevail in the end, regardless of the difficulties. And at the same time they must confront the most brutal facts of their current reality, whatever they might be. This is the Stockdale paradox.

The good-to-great leaders remove noise and clutter and just focus on the few things that have the greatest impact. They are able to do so mainly because they operate from both sides of the Stockdale Paradox, never letting one side overshadow the other. If a company is able to adopt this dual pattern, it will dramatically increase the odds, of making a series of good decisions and ultimately discovering a simple, yet deeply insightful, concept for making the really big choices. And once the company has a simple, unifying concept, it will be very close to making a sustained transition to breakthrough results.

- o All good-to-great companies begin the process of finding a path to greatness by confronting the brutal facts of their current reality.

- o When a company starts with an honest and diligent effort to determine the truth of its 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.

- o To move from good to great, companies must shape a culture wherein people have a tremendous opportunity to be heard and, ultimately, for the truth to be heard.

- o Creating a climate where the truth is heard involves four basic practices:
  - > Lead with questions, not answers
  - > Engage in dialogue and debate, not coercion
  - > Conduct autopsies, without blame
  - > Build “red flag” mechanisms that turn information into information that cannot be ignored.

- o Leadership does not begin just with vision. It begins with getting people to confront the brutal facts and to act on the implementation. While facing just as much adversity as the comparison companies, the good-to-great companies respond to that adversity differently. They hit the realities of their situation head-on. As a result, they emerge from adversity even stronger.

The Hedgehog concept

The fox knows many things, but the hedgehog knows one big thing: how to collect its food and survive. A Hedgehog Concept is a simple, crystalline concept that flows from a deep understanding about the intersection of the following three circles:

1. What a company can be the best in the world at (and, equally important, what a company cannot be the best in the world at). Just because a company possesses a core competence does not necessarily mean it can be the best in the world at it. Conversely, what it can be the best at might not even be something in which it is currently engaged.

2. What drives the company’s economic engine? All the good-to-great companies develop deep insight into how to most effectively generate sustained and robust cash flow and profitably. In particular, they discover the single denominator that has the greatest impact on their economics.

3. What the company is deeply passionate about. The good-to-great companies focus on those activities that ignite their passion.

The "best in the world" understanding is a much more severe standard than a core competence. A company might have a competence but it may not necessarily have the capacity to be truly the best in the world at that competence. Conversely, there may be activities at which the company can become the best in the world, but at which it has no current competence.

To get insight into the drivers of their economic engine, companies must search for the one denominator that has the single greatest impact. Good-to-great companies set their goals and strategies based on that understanding. In contrast, comparison companies set their goals and strategies based on bravado.

The good-to-great companies are more like hedgehogs. They know "one big thing" and stick to it. The comparison companies are more like foxes – crafty, cunning creatures that know many things but lack consistency.

A Culture of Discipline

The purpose of bureaucracy is to compensate for incompetence and lack of discipline. But this is a problem that would be non existent if a company has the right people in the first place. Most companies build a bureaucracy to manage the small percentage of wrong people. This in turn drives away the right people and increases the percentage of wrong people on the bus. As a result, there is a need for more bureaucracy to compensate for incompetence and lack of discipline. This then further drives the right people away, and so forth.

Companies must avoid bureaucracy and hierarchy and instead create 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. If we get the right people on the bus, and the wrong people off, we don't need bureaucracy. A culture of discipline involves a duality. On the one hand, it requires people who adhere to a consistent system. On the other hand, it gives people freedom and responsibility to operate 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 from the outside. But upon closer inspection, they're full of people who display plenty of diligence and a great intensity.

A culture of discipline must not be confused with a tyrant who disciplines people. Savior CEOs who personally discipline people through the sheer force of their 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. 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 role of technology

When used right, technology builds momentum. But when used wrongly, when viewed as an easy solution, without a deep understanding of how it links to a clear and coherent concept, technology simply accelerates a company's own self-created demise.

No technology, no matter how amazing by itself can ignite a shift from good-to-great and make a company Level 5. No technology can turn the wrong people into the right people, can instill the discipline to confront brutal facts of reality, or establish unwavering faith. No technology can supplant the need for a deep understanding of the three circles and the translation of that understanding into a simple Hedgehog Concept. No technology can create a culture of discipline.

Good-to-great organizations think differently about technology and technological change. They avoid technology fads and bandwagons, yet they become pioneers in the application of carefully selected technologies.

The key questions about any technology are: Does the technology fit directly with the company's Hedgehog Concept? If yes, then a company needs to become a pioneer in the application of that technology. If not, then it can settle for parity or ignore it entirely.

The good-to-great companies use technology to accelerate momentum, not to create 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 fitted with their three circles and after they hit breakthrough.

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 the fear of being left behind.

The Flywheel and the Doom Loop

The good-to-great transformations do not happen in one go. There is no single defining action, no grand program, no one killer innovation, no solitary lucky break, no wrenching revolution. Good to great comes about by a cumulative process – step by step, action by action, decision by decision.

The good-to-great companies understand the importance of continued improvement and the delivery of results. They focus on tangible accomplishments, however incremental and see how these steps fit into the context of an overall concept that will work. When a company does this in such a way that people see and feel the build up of momentum, they will become enthusiastic. This is the flywheel effect.

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 inside. The dramatic results mask the long gradual process underlying them.

Sustainable transformations follow a predictable pattern of build up and breakthrough. Like pushing on a giant, heavy flywheel, it takes a lot of effort to get the thing moving, 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 follow the doom loop. Rather than accumulating momentum, turn by turn of the flywheel, they try to skip, build up and jump immediately to breakthrough. Then, with disappointing results, they lurch back and forth, failing to maintain a consistent direction. Sometimes, such companies try to create a breakthrough with large, misguided acquisitions. The good-to-great companies, in contrast, principally use large acquisitions, to accelerate momentum in an already fast-spinning flywheel.

From Good to Great To Built To Last
Jim Collins is well known for his earlier book, "*Built to Last*." When Collins looks back at the enduring great companies from *Built to Last,* he sees substantial evidence that their early leaders followed the good-to-great framework. The only real difference is that they did so as entrepreneurs in small, early-stage enterprises trying to get off the ground, rather than as CEOs trying to transform established companies from good to great.

The author sees *Good to Great* not as a sequel to *Built to Last,* but as a *prequel.*

Established Company *or* Start-up	+	*Good to Great* Concepts	→	Sustained Great Results	+	*Built to Last* Concepts	→	Enduring Great Company

To make the shift from a company with sustained great results to an enduring great company of iconic stature, the central concept from *Built to Last:* must be applied. Discover your core values and purpose beyond just making money (core ideology) and combine this with the dynamic of preserve the core/stimulate progress. A tremendous complementarily exists between the two studies; the ideas from each enrich and inform the ideas in the other.

The Good-to-Great ideas lay the groundwork for the ultimate success of the Built to Last ideas. Good-to-Great provides the core ideas for getting a flywheel turning from buildup through breakthrough, while Built to Last outlines the core ideas for keeping a flywheel accelerating long into the future and elevating a company to iconic stature. Each of the Good-to-Great findings enables all four of the key ideas from Built-to-Last. Those four key ideas are:

1. *Clock Building, Not Time Telling.* Building an organization that can endure and adapt through multiple generation of leaders and multiple product life

cycles; as opposed to being built around a single great leader or a single great idea.

2. *Genius of AND.* Embracing both extremes on a number of dimensions at the same time. Instead of choosing A or B, figure out how to have A and B – purpose and profit, continuity and change, freedom and responsibility, etc.

3. *Core Ideology*. Instilling core values and core purpose as principles to guide decisions and to inspire people throughout the organization over a long period of time.

4. *Preserve the Core/Stimulate Progress*. Preserving the core ideology as an anchor point while stimulating change, improvement, innovation, and renewal in everything else. Change practices and strategies while holding core values and purpose fixed. Set and achieve Bhags consistent with the core ideology.