



Good to Great

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

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Review By-

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About the Author :

Jim Collins is a student and teacher of enduring great companies -- how they grow, how they attain superior performance, and how good companies can become great companies. Having invested over a decade of research into the topic, Jim has co-authored three books, including the classic *Built to Last*, a fixture on the Business Week bestseller list for *s eliminated wasteful luxuries, like executive dining rooms, corporate jets, lavish vacation spots, etc.*, for the good of the company - to other people, external factors, and good luck. All 11 of the featured companies had this type of leadership, charactmulti-year research projects and works with executives from the private, public, and social sectors.

Jim has served as a teacher to senior executives and CEOs at corporations that include: Starbucks Coffee, Merck, Patagonia, American General, W.L. Gore, and hundreds more. He has also worked with the non-corporate sector such as the Leadership Network of Churches, Johns Hopkins Medical School, the Boys & Girls Clubs of America and The Peter F. Drucker Foundation for Non-Profit Management.

Jim invests a significant portion of his energy in large-scale research projects -- often five or more years in duration -- to develop fundamental insights and then translate those findings into books, articles and lectures. He uses his management laboratory to work directly with executives and to develop practical tools for applying the concepts that flow from his research.

In addition, Jim is an avid rock climber and has made free ascents of the West Face of El Capitan and the East Face of Washington Column in Yosemite Valley.

Thesis :

Collins and his team identified 11 companies that followed a pattern of "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." Public companies were selected because of the availability of comparable data. Fifteen-year segments were selected to weed out the one-hit wonders and luck breaks. While these selection criteria exclude "new economy" companies, Collins contends that there is nothing new about the new economy, citing earlier technology innovations of electricity, the telephone, and the transistor.

Having identified the companies that made the leap from Good To Great, Collins and his team set out to examine the transition point. What characteristics did the Good To Great companies have that their industry counterparts did not? What didn't the Good To Great companies have?

Collins maps out three stages, each with two key concepts. These six concepts are the heart of Good To Great and he devotes a chapter to explaining each of them.

- Level 5 Leadership
- First Who... Then What
- Confront the Brutal Facts
- The Hedgehog Concept



- A Culture of Discipline
- Technology Accelerators

Collins characterizes the Level 5 leader, as "a paradoxical blend of personal humility and professional will." The Level 5 leader is not the "corporate savior" or "turnaround expert". Most of the CEOs of the Good To Great companies as they made the transition were company insiders. They were more concerned about what they could "build, create and contribute" than what they could "get - fame, fortune, adulation, power, whatever". No Ken Lay of Enron or Al Dunlap of Scott Paper, the larger-than-life CEO, led a Good To Great company. This kind of executive is "concerned more with their own reputation for personal greatness" than they are with "setting the company up for success in the next generation".

In this book, Jim Collins also challenges the notion that "people are your most important asset" and postulates instead that "the *right* people are." I don't know that I yet completely agree with his philosophy that it's more important to get the right people on the bus and then see where it goes than it is to figure out where to go and get the right people on the bus who can get you there. However, he makes his point clearly and you can decide if you agree with him.

This nearly 300-page book is packed with leading edge thinking, clear examples, and data to support the conclusions. It is a challenge to all business leaders to exhibit the discipline required to move their companies from Good To Great.

Chapter 1: Good is the Enemy of Great

Collins and his assembled crew started their research using the companies that rank in the top 500 in total annual sales. Then, by analyzing the returns they narrowed down the list to companies that experienced mediocrity for a period of time, but then changed course for the better and outperformed not just other companies in the same industry, but the overall market by several times. Other factors were also considered, until they finally had the list narrowed down to eleven "superstar" corporations: Abbott, Circuit City, Fannie Mae, Gillette, Kimberly- Clark, Kroger, Nucor, Phillip Morris, Pitney Bowes, Walgreens, and Wells Fargo. He then explored what goes into a company's transformation from mediocre to excellent. Based on hard evidence and volumes of data, the book author (Jim Collins) and his team uncovered timeless principles on how the good-to-great companies like produced sustained great results and achieved enduring greatness, evolving into companies that were indeed 'Built to Last'.

Good to Great is centers on a comparative analysis of eleven companies. Collins selects once-dull organizations, such as Kimberley Clark and Gillette that subsequently outperformed.

The usual fault of such manuals is their obvious prescriptions. Of course successful firms kept close to their customers and motivated employees. But unsuccessful firms didn't fail because they rejected these objectives. They failed because they couldn't achieve them.

Collins penetrates these banalities because he questions the congratulatory self-description of winning businesses. For example, most of his eleven companies didn't have visionary CEOs determined to turn the business round. Few were aiming at the cover page of Fortune, most were consensus builders from inside the organization.

Collins' research says the CEO's at the time companies become great aren't egotistical business leaders. Rather, they tend to be reserved people who channel their ego into building their companies. Collins is a little vague on exactly how you get *other* employees and key players to



channel *their* egos into building the company. The hope is that, if you select the right people, they'll do what's best for the company rather than for themselves.

Finding something you can be passionate about is the other key. And, all employees must be passionate about the endeavor. Because most employees won't get jazzed about making the CEO and shareholders wealthy, a company should have a purpose beyond just making money. Collins says a company should have 'core values.'

Collins says it doesn't matter what these 'core values' are, just that they exist. He says Philip Morris is happy to provide the strongest brand recognition of 'sinful' products. Maybe, they're rebelling against political correctness, or health, or whatever. If it works for them, it's cool. Fannie Mae, on the other hand, prides itself on providing mortgages to new, less-affluent homeowners and helping people buy homes. That sounds good, and is probably true, but it reads a little bit like a publicity statement.

Chapter 2: Level 5 Leadership

In this chapter Collins describes what he refers to as “level 5” leadership as explained in the table below. Every good-to-great company had “Level 5” leadership during pivotal transition years, where Level 1 is a Highly Capable Individual, Level 2 is a Contributing Team Member, Level 3 is the Competent Manager, Level 4 is an Effective Leader, and Level 5 is the Executive who builds enduring greatness through a paradoxical blend of personal humility and professional will. 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. One of the most damaging trends in recent history is the tendency (especially of boards of directors) to select dazzling, celebrity leaders and to de-select potential Level 5 leaders. Potential Level 5 leaders exist all around us, we just have to know what to look for. The research team was not looking for Level 5 leadership, but the data was overwhelming and convincing. The Level 5 discovery is an empirical, not ideological, finding.

The 5th Level Leader – 5th Level Leaders have a combination of strong will and personal humility. The 5th Level Leader demonstrates an unwavering resolve and sets the standard for building great companies. In balance, he/she demonstrates a compelling modesty, relies on inspired standards and channels ambition into the company, and not into the self. The 5th Level Leader “looks in the mirror, not out the window” when focusing on responsibility and does just the opposite when apportioning credit for success of the company.

When a leader's energy is “in balance” they are driven neither by ego nor fear. They are moving at a speed that allows them to feel themselves, as well as those around them. They realize more than anyone else, that “the less you control, the more you can do”. Leadership greatness is about being a conduit of energy, not a single generator of it.

Collins asked a critical question: Can 5th Level Leadership be taught? Well, yes and no. To the extent someone is gifted with these innate capabilities, they certainly have a head start. For any leader it is a matter of degree. It is about growing into the role of a 5th Level Leadership leader.

It is interesting to note that most 5th Level Leaders did not live extravagant lifestyles. They had sound family and community relationships. They had healthy and long-term marriages. Most of them are highly spiritual people who have attributed much of their success to good-luck and God rather than personal greatness. These men and women were servant leaders, not self-serving ones.



The five levels are as follows :

Level 5 Executive

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

Level 4 Effective Leader

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

Level 3 Competent Manager

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

Level 2 Contributing Team Member

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

Level 1 Highly Capable Individual

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

.Humility + Will = Level 5

Professional Will and Personal Humility creates superb results, a clear catalyst in the transition from good to great. Demonstrates a compelling modesty, shunning public adulation; never boastful. Demonstrates an unwavering resolve to do whatever must be done to produce the best long-term results, no matter how difficult. Acts with quiet, calm determination; relies principally on inspired standards, not inspiring charisma, to motivate. Sets the standard of building an enduring great company; will settle for nothing less. Channels ambition into the company, not the self; sets up successors for even greater success in the next generation. Looks into the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, external factors, or bad luck. Looks out the window, not in the mirror, to apportion credit for the success of the company - to other people, external factors, and good luck.

All 11 of the featured companies had this type of leadership, characterized by a CEO who displayed determination and a strong will to be the best, yet who also showed humility. These level 5 leaders eliminated wasteful luxuries, like executive dining rooms, corporate jets, lavish vacation spots, etc., for the good of the company. Also, when asked about the success of the company, they were quick to give complete credit to the other workers in the company, rather than themselves. Yet these CEOs rose above their peers. Collins dubs them "Level 5" managers. By this definition, each was humble to a fault and hid from the limelight. At the same time, though, all of them went to extraordinary lengths to make their companies great. For Darwin E. Smith of Kimberly-Clark, that required jettisoning the core business when he sold its paper mills. For George Cain at Abbott, it meant firing his own relatives. These leaders' ambition was "first and foremost for the company," writes Collins. They were "concerned with its success, rather than their own riches and personal renown."

Chapter 3: First Who ... then What

It deals with confronting the facts of expertise and market know-how, and then assembling together a first-class team of dedicated workers and management to achieve goals. In these "good to great" companies, they all shared several things in common. First and foremost, they were not afraid to admit that they lacked the necessary skills to succeed in certain markets. Instead of pretending to know everything, these companies brainstormed until they had a short list of what they *knew* they could do better than anyone else. They didn't bother acquiring other companies, where they had no expertise, or trying to learn new skills, or anything like that. Instead, they focused in on what they were best at, then hired individuals who were skilled in the same area and who would be most likely to work relentlessly toward a goal. Collins' point is "...not just about assembling the right team - that's nothing new. The main point



is to *first* get the right people on the bus (and the wrong people off the bus) *before* you figure out where to drive it. The second key point is the degree of *sheer rigor* needed in people decisions in order to take a company from good to great.". Regarding people decisions he has the following to say:

1. 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.)
2. 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.)
3. 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 leaders understand three simple truths:

- If you begin with the “who,” rather than the “what,” you can more easily adapt to a changing world.
- If you have the right people on the bus, the problem of how to motivate and manage people largely goes away.
- 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.

Chapter 4: Confront the Brutal Facts

This chapter deals with the Stockdale Paradox . Another defiance of conventionality is encapsulated in the so-called Stockdale paradox. Admiral Stockdale survived a long period of imprisonment in Vietnam. He had determination to survive, but claimed that it was ‘the optimists’ who failed to see it through. The Stockdale paradox contrasts those who focus with determination on a realistic objective with the fantasists whose slogan is that if you can dream it, you can do it.

Retrain faith that you will prevail in the end, regardless of the difficulties and at the same time confront the most brutal facts of your current reality, whatever they might be. It says:

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.

Next, even before they had settled on a business plan, these CEOs surrounded themselves with smart, hard-working people who were not afraid to face their shortcomings and hurdles--the "brutal facts," as Collins puts it--but who had faith they would ultimately win. After settling on a course, the companies on the list never lost sight of what they did best, and they maintained tough standards for their people. New hires either fit right in--or were quickly ejected. Then, through perseverance and the careful use of technology, the enterprises lifted off. "The process resembles relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond," Collins concludes. Good-to-Great companies maintain unwavering faith that they can and will prevail in the end, regardless of the difficulties, and at the same time have the discipline to confront the most brutal facts of their current reality – whatever that might be.



All good-to-great companies began the process of finding a path to greatness by confronting the brutal facts of their current reality. When a company starts with an honest and diligent effort to determine the truth of its situation, the right decisions often become self-evident. Good decisions are impossible without an honest confrontation of the brutal facts.

Why Kroger Beat A&P

The Great Atlantic and Pacific Tea Company (also known as A&P) had the perfect business model for the first half of the twentieth century, when two world wars and an economic depression imposed frugality upon Americans: cheap, plentiful groceries sold in utilitarian stores. However, in the more affluent second half of the century, Americans began demanding bigger stores, more choices, fresh baked goods, fresh flowers, banking services and so forth. They wanted superstores that offered almost everything under one roof. To face the brutal facts about the mismatch between its past model and the changing world, A&P opened a new store called Golden Key, where it could experiment with new methods and models and learn what customers wanted. It sold no A&P-branded products, experimented with new departments, and began to evolve toward the more modern superstore. A&P began to discover the answer to the questions of why it was losing market share and what it could do about it. But A&P executives didn't like the answers they got, so they closed the store, rather than diverge from their ages-old business ideas. Meanwhile, the Kroger grocery chain also conducted experiments and, by 1970, discovered the inescapable truth that the old-model grocery store was going to become extinct. Rather than ignore the brutal truth, as A&P did, the company acted on it, eliminating, changing, or replacing every single store that did not fit the new realities. It went block-by-block, city-by-city, state-by-state, until it had rebuilt its entire system. By 1999, it was the number one grocery chain in America.

Let the Truth Be Heard

One of the primary tasks 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 likewise heard. To accomplish this, you must engage in four basic practices:

Lead with questions, not answers.

Leading from good to great does not mean coming up with the answers and motivating everyone to follow your messianic vision. It means having the humility to grasp the fact that you do not yet understand enough to have the answers, and then to ask questions that will lead to the best possible insights.

Engage in dialogue and debate, not coercion.

All good-to-great companies have a penchant for intense debates, discussions and healthy conflict. Dialogue is not used as a sham process to let people "have their say" so they can buy into a predetermined decision; rather, it is used to engage people in the search for the best answers.

Conduct autopsies, without blame.

Good-to-great leaders must take an honest look at decisions his or her company makes, rather than simply assigning blame for the outcomes of those decisions. These "autopsies" go a long way toward establishing understanding and learning, creating a climate where the truth is heard.

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



Good-to-great companies have no better access to information than any other company; they simply give their people and customers ample opportunities to provide unfiltered information and insight that can act as an early warning for potentially deeper problems.

Chapter 5 : The Hedgehog Concept

It talks about the triumph of understanding over bravado -- requires a deep understanding of three intersecting circles translated into a simple, crystalline concept -- the hedgehog concept and it's the basis for much of the book. This concept involves reflecting on three important questions that all businesses should ask:

1. What are you deeply passionate about?
2. What drives your economic engine? and
3. What you *can* be best in the world at ?

At what you can be best in the world. This standard goes far beyond core competence — just because you possess a core competence doesn't necessarily mean you are the best in the world at that competence. Conversely, what you can be best in the world at might not even be something in which you are currently engaged. The Hedgehog Concept is not a goal or strategy to be the best at something; it is an understanding of what you can be the best at and, almost equally important, what you cannot be the best at.

What drives your economic engine? To get insight into the drivers of your economic engine, search for the one denominator (profit per x, for example, or cash flow per x) that has the single greatest impact. If you could pick one and only one ratio to systematically increase over time to make a greater impact, what would that ratio be? This denominator can be subtle, sometimes even unobvious. The key is to use the denominator to gain understanding and insight into your economic model.

What you are deeply passionate about. Good-to-great companies did not pick a course of action, then encourage their people to become passionate about their direction. Rather, those companies decided to do only those things that they could get passionate about. They recognized that passion cannot be manufactured, nor can it be the end result of a motivation effort. You can only discover what ignites your passion and the passions of those around you.

These three questions are placed within overlapping circles. The area where the three overlap is the area where a corporation should aim to reach, to ensure the most output and the greatest efficiency.

A hedgehog concept is not a goal to be the best, a strategy to be the best, an intention to be the best, a plan to be the best. It is an understanding of what you can be the best at.

If you could pick one and only one ratio - profit per x (or in the social sector, cash flow per x) - to systematically increase over time, what x would have the greatest and most sustainable impact on your economic engine?

The core of the book emphasizes what Collins refers to as a 'hedgehog' strategy that is necessary to achieve greatness. Collins says great companies are like hedgehogs in that they stick to what they know and can do well. Collins says when a fox attacks a hedgehog the hedgehog curls into a prickly ball and the attacking fox must leave it alone. Then, the fox runs around and tries another point of attack and never learns. The hedgehogs only need to do one thing that works well and consistently. In short, after much research and writing, Collins finds the key to business success is functioning within the intersection of three circles. The first circle represents an endeavor at



which your company has the potential to be the best in the world. The second circle represents what your company can feel passionate about. The third circle represents a measure of profitability that can drive your economic success. You must choose to do something that's profitable and know how to focus upon that profitability.

To find the circles, Collins makes the excellent point that you must begin with the right people. Collins emphasizes that the people must come *before* you decide exactly how your company will achieve success. We learn that in great companies there is often heated debate about what's best for the company. The culture of great companies is open in the sense that the truth will be heard. That's very different from debating for the sake of protecting private turf and self-aggrandizement.

Chapter 6 : Cultural Discipline

This chapter deals with the importance of discipline. It talks about building a culture full of self-disciplined people who take disciplined action, fanatically consistent with the three circles, the hedgehog concept. freedom and responsibility within a framework -- build a consistent system with clear constraints, but give people freedom and responsibility within the framework of that system. It advises to hire self-disciplined people who don't need to be managed, and to manage the system, not the people.

Discipline means fanatical adherence to the Hedgehog Concept and the willingness to shun opportunities that fall outside the three circles. The findings here might surprise some people. First of all, the management teams of the best companies are *not* strict disciplinarians. Discipline is stressed, but it comes from hiring employees who are *already* disciplined and ready to motivate themselves to achieve. Bureaucratic culture arises to compensate for incompetence and lack of discipline, which arise from having the wrong people on the bus in the first place

Having a disciplined culture is the opposite of having a controlled one. There is no need for hierarchy, bureaucracy, or excessive control. Sustained great results depend upon building a culture full of self-disciplined people who take disciplined action fanatically consistent with the three circles of the Hedgehog Concept. This is in contrast to the typical ways in which many companies (particularly start-ups) conduct themselves when responding to growth and success. As these companies grow, they tend to sacrifice the creativity, energy and vision that made them successful in favor of hierarchical, bureaucratic structures and strictures — thus killing the entrepreneurial spirit as they create order. Exciting companies thus transform themselves into ordinary companies, and mediocrity begins to grow in earnest. Indeed, 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. Most companies build their bureaucratic rules to man-age a small percentage of the wrong people, which in turn drives away the right people. This self-perpetuating problem can be avoided by creating a culture of discipline.

Action Steps

To create a culture of discipline, you must:

Build a culture around the idea of freedom and responsibility, within a framework.

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. They also had the discipline of thought, to confront the brutal facts of reality and still maintain faith that they were on the track to greatness. Finally, they took disciplined actions that kept them on that track.



Fill your culture with self-disciplined people who are willing to go to extreme lengths to fulfill their responsibilities.

People in good-to-great companies tend to be almost fanatical in the pursuit of greatness; they possess the discipline to do whatever it takes to become the best within carefully selected arenas, and then seek continual improvement from there. While everyone would like to be the best, most organizations lack the discipline to figure out with ego less clarity what they can be the best at, and the will to do whatever it takes to turn that potential into reality.

Don't confuse a culture of discipline with a tyrannical disciplinarian.

Many companies that could not sustain their success had leaders who personally disciplined the organization through sheer force. Good-to-great companies had Level 5 leaders who built an enduring culture of discipline, powered by self-disciplined people who acted in the company's best interests without strict dictums from leadership. These disciplined companies could and did thrive even after their leaders had departed the organization; those companies that practiced discipline only by tyrannical rule could not sustain themselves once their leaders departed.

Adhere with great consistency to the Hedgehog Concept, exercising an almost religious focus on the intersection of the three circles.

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.” They did not launch unrelated businesses or joint ventures in an effort to diversify. They did not panic if the competitive landscape shifted. If a course of action did not fit into their disciplined approach, they did not perform that action. It takes discipline to say “No” to such opportunities.

Collins claims magic occurs when you blend a culture of discipline with an ethic of entrepreneurship. Collins's discussion about discipline is no different than my discussion about responsibility or Marshall Thurber's discussion about integrity. Collins points out the interesting paradox that political scientists have known all along. In order to have freedom, there must be rules. To the extent that people are willing to voluntarily abide by those rules, there will an increase in the levels of available freedom. This discipline, responsibility or integrity cannot come through control. There must be disciplined people who engage in disciplined thought and then take disciplined action. The most important discipline is staying loyal to the hedgehog concept.

Chapter 7 : Technology Accelerators

In this chapter Collins tells that technology is not the critical factor that many people think. Technology, when properly applied, is an accelerator of momentum, but it is not the creator of momentum. In other words, having a technological advantage can help a company more quickly achieve its goals, but it is useless by itself. Technology alone cannot make a company great. It has to be linked to and applied within the Hedgehog Concept.

For those company studied, (and admittedly few were “technology” companies), the whole issue of technology was not paramount to their success or decline. Rather, it merely acted as an accelerator of the flywheel concept. Their mantra for dealing with technology – “crawl,



walk, run”. Based on the experience of these companies, a cautioned approach towards technology works best, even during times of rapid and radical change.

Chapter 8 : The Flywheel and the Doom Loop

In this chapter Collins takes the notion of the flywheel concept one step further. He emphasizes that when companies went from good to great there was “no miracle moment”. No technological breakthrough. No special announcement. Rather, the accumulated effect of dedicated work finally blossoming on an exploding basis. These findings are in alignment with what Napoleon Hill wrote in *Think and Grow Rich* decades ago. He said, “The most successful people have a burning desire for a particular purpose”. Success didn’t come overnight, even though it may have appeared that way to outsiders. Dedication and commitment to purpose builds people and companies of great wealth. Similarly, this flywheel can work in reverse, which Collins refers to as the “doom loop”.

The Flywheel and The Doom Loop

Good-to-great transformations often look like dramatic, revolutionary events to those observing from the out-side, 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. Those companies had no name for their transformations; there was no launch event, no tag line, no programmatic feel whatsoever. There was, in other words, no miracle moment in the transformation of each company from good to great.

Each went through a quiet, deliberate process of figuring out what needed to be done to create the best future results, then they simply took those steps, one by one over time, until they hit their breakthrough moments.

The Flywheel Effect

Their successes can be seen in the following illustration: Imagine an enormous, heavy flywheel — a massive disc mounted horizontally on an axle, measuring 30 feet in diameter, two feet in thickness and 5,000 pounds in weight. In order to get the flywheel moving, you must push it. Its progress is slow; your consistent efforts may only move it a few inches at first. Over time, however, it becomes easier to move the flywheel, and it rotates with increasing ease, carried along by its momentum. The breakthrough comes when the wheels own heavy weight does the bulk of the work for you, with an almost unstoppable force. Each of the good-to-great companies experienced the flywheel effect in their transformations. The first efforts in each transformation were almost imperceptible. Yet, over time, with consistent, disciplined actions propelling it forward, each company was able to build on its momentum and make the transformation — a build-up that led to a breakthrough. The momentum they built was then able to sustain their success over time. These companies understood a simple truth: Tremendous power exists in the fact of continued improvement and the delivery of results. Point to tangible accomplishments — however incremental at first — and show how those steps fit into the context of an overall concept that will work. When this is done in such a way that people see and feel the buildup of momentum, they will line up with enthusiasm. This is the real flywheel effect. When a leader lets the flywheel do the talking, he or she does not need to fervently communicate the organizations goals — people can just extrapolate from the momentum of the flywheel for themselves. As people decide among themselves to turn the fact of potential into the fact of results, the goal almost sets itself. People want to be part of a winning team, producing visible, tangible results.



The Doom Loop

Other companies exhibited very different patterns. Instead of a quiet, deliberate process of figuring out what needed to be done, then doing it, these companies frequently launched new programs — often loudly, with the aim of “motivating the troops” — only to see those programs fail to produce sustained results. They pushed the flywheel in one direction, stopped, changed course and pushed it in a new direction, a process they repeat-ed continually. After years of lurching back and forth, these companies failed to build sustained momentum and fell into what could be termed the doom loop.

Are You on the Flywheel or in the Doom Loop?

How can you tell if your organization is on the fly-wheel, or in the doom loop? Consider the following:

You're on the flywheel if you—

- Follow a pattern of buildup, leading to break-through.
- Confront the brutal facts to see what steps must be taken to build momentum.
- Attain consistency with a clear Hedgehog Concept, staying within the three circles.
- Follow the pattern of disciplined people, thought and action.
- Harness appropriate technologies to your Hedgehog Concept, to accelerate momentum.
- Spend little energy trying to motivate or align people; the momentum of the flywheel is infectious.
- Maintain consistency over time.

You're in the doom loop if you—

- Skip buildup and jump right into breakthrough.
- Implement big programs, radical change efforts, dramatic revolutions and chronic restructuring.
- Embrace fads and engage in management hoopla, rather than confront the brutal facts.
- Demonstrate chronic inconsistency, lurching back and forth and straying outside the three circles.
- Jump right into action, without disciplined thought, or first getting the right people on the bus.
- Spend a lot of energy trying to align and motivate people, rallying them around new visions.



- Sell the future to compensate for lack of results in the present.

The Flywheel and the Doom Loop are metaphors for demonstrating how great companies start out slowly and methodically yet eventually reach the sustained momentum needed for breakthrough results. In this chapter Collins shows how each of the companies on the good to great list went through a period of buildup before it achieved breakthrough success. Companies that moved too quickly, and tried to skip the buildup phase, often saw their success shrivel and fade away. Those that underwent a steady changeover phase, followed by careful implementation, went on to achieve great things.

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.

Chapter 9 : From Good to Great to Built to Last

In this concluding chapter, Collins attempts to integrate the findings in his two books. What he tells us is that *Built To Last* is the sequel to *Good To Great*. It is about great companies that have sustained themselves. The principal of *Good To Great*, helps build great companies and the principals of *Built To Last* help sustain them. He reminds us that in order to build sustaining companies we must “discover our core values and purpose beyond just making money” and combine this with the dynamic of the preserve growth/stimulate progress. In this chapter, Collins raises the most interesting question of all. That is “why be a great company”? His response:

- 1) It’s no harder given these ideas than being just a good company. It is just a shift in energy, not an additional expenditure of it.
- 2) doing so helps us in our search for meaningful work and
- 3) to have a meaningful life

He also stresses the importance of *continuous* improvement and how critical it is that a great company has the right people in place. When it comes time for the CEO to step aside, it’s very important that someone with similar vision be properly prepared to take his place. In those companies that fail to achieve greatness, the new CEO is usually someone from the outside who doesn’t really have a good feel for the business that he is about to run. This upsets the system, and more often than not, it leads to a sharp decline in corporate value.

There are several appendices at the end of the book, and they help to illustrate the process that was used to determine which companies would make the cut, along with a list of other companies that almost made the cut. The appendices cover about 40 pages, and they are made up mostly of numeric comparisons and facts.



Learnings From "Good To Great"

--Ten out of eleven good-to-great company leaders or CEOs came from the inside. They were not outsiders hired in to 'save' the company. They were either people who worked many years at the company or were members of the family that owned the company. Strategy per se did not separate the good to great companies from the comparison groups.

--Before answering the "what" questions of vision and strategy, ask first "who" are the right people for the team.

--Comparison companies used layoffs much more than the good-to-great companies. Although rigorous, the good-to-great companies were never ruthless and did not rely on layoffs or restructuring to improve performance

-- There is no link between executive compensation and the shift from good to great.

--The purpose of 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 your most important asset" is wrong. People are not your most important asset. The right people are. Get the right people on the bus. Get the wrong people off the bus. Be sure everyone is in a seat that suits them. Collins says that the right people are your best asset. Let them choose their own song. 99 Bottles Of Beer On The Wall, or whatever...

--Whether someone is the right person has more to do with character and innate capabilities than specific knowledge, skills or experience.

--Let the right people discover something your company can be great at. (This won't always work for ultra-small companies-- by the time you have the right people and are paying them, you'll be out of money before anyone figures out what you should be doing!)

-- Good-to-great transformations did not need any new name, tagline, or launch program. The leap was in the performance results, not a revolutionary process. Greatness is not a function of circumstance; it is clearly a matter of conscious choice.

--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.

--Good-to-great companies paid little attention to managing change or motivating people. Under the right conditions, these problems naturally go away.

--Choose something that the company can be passionate about. Passion isn't dictated, it's discovered.

--Find your best single measure of profitability. Collins asks: If you could maximize profitability per x, what x would have the biggest long-term impact on your company's success? Then, stay focused on improving that one key ratio.

--Stop making 'to do' lists. Start making "stop doing" lists. Stop doing anything that doesn't fit within your inner rodent.

--Technology has nothing to do with the transformation from good to great. It may help accelerate it but is not the cause of it

--Mergers and acquisitions do not cause a transformation from good to great.

--Know that you will succeed in the end. Have faith in your company's destiny. But, realize it might take many years that really suck to get there. Collins says you must confront the brutal



facts of your company's reality

-- Discover your core values and purpose beyond simply making money and combine this with the dynamic of preserve the core values - stimulate progress, as shown for example by Disney. They have evolved from making short animated films, to feature length films, to theme parks, to cruises, but their core values of providing happiness to young and old, and not succumbing to cynicism remains strong.

-- Enduring great companies don't exist merely to deliver returns to shareholders. In a truly great company, profits and cash flow are absolutely essential for life, but they are not the very point of life. If you're doing something you care deeply about and if you believe in it, it's impossible to imagine not trying to make it great.

Critique

:

Ever wonder what makes some companies stand out from the rest of the pack? Ever wonder why they seem to come out of nowhere? In? *Good to Great: Why Some Companies Make the Leap... and Other Don't?* Jim Collins explains both why and how the magic happens. Collins put forth quite an extensive study of a very select group of companies based on stock performance over many years, each with a similar control company in a similar starting position to compare to. He studied the companies and interviewed enough of the employees and CEO to get a feel for them inside and out. The conclusions based on the data he collected and its analysis is quite astounding. Jim himself says he was very surprised by the outcome. See, one of the variables he initially tried to minimize ended up being the critical difference between the good and the great...the companies' leaders. Mr. Collins sets out to show what a company must do in order to make the huge, all-important leap from a so-so company to a superb company. (The leap, in my opinion, can be seen as similar to that of John Travolta's career path from Welcome Back Kotter to current day status.) Starting with 1,435 Fortune 500 companies, Collins shaves the list down, using the criteria of stock price over fifteen years, until he settles on eleven "great" companies. After researching this handful of companies, the author draws conclusions about how all companies can make a similar transition. His findings fall into three categories: disciplined people, disciplined thought, and disciplined action.

The first step, disciplined people, begins with a "Level 5 Leader" – a humble yet ambitious leader focused on the constant growth of the company with little regard to her own needs. This fearless leader must then surround herself with the right people – not just qualified individuals but skilled people who are right for their job and for the organization. By choosing the proper person to run the company and by filling the company with employees who should be "on the bus," the author envisions a company that can be driven in the right direction.

Once you have the right people in the organization, Collins says the people must all work toward a company managed by disciplined thought. All the people "on the bus" must confront the facts – good and bad – of the organization. By accepting the negative company news with a realistic attitude while still looking to conquer these problems, the disciplined people move the company forward, says Collins. The next step is to ensure that the company finds it's all-important "hedgehog concept" – Collins' cute term for the core business concept of the company. By finding the overlap of what you are passionate about, what you can be best at in the world and what drives your economic engine, the author lays out a general plan for how to find out what your hedgehog is. After getting the right people and the right frame of mind, Collins suggests the final step - development of a disciplined company culture. This culture should bring, according to



the author, an entrepreneurial spirit that increases productivity while lessening bureaucracy. Finally, with all other pieces of the puzzle in place, the company should recognize that technology is not the lynchpin to any company's success, but it can be used as an accelerator of greatness. After conquering these three areas – people, thought and action – the company can, as Collins describes, slowly pick up momentum until it is a strong and great sustainable company. However, there are some extremely valid and interesting points that the author exhibits from his research that are worth revisiting. His studies reinforce the idea that the success of anything in life, especially in business, comes down to the right people. When the people who will truly be happy in the organization are firmly established, they will lead to powerful advances. Secondly, Collins reinforces the idea that the culture of the organization, when properly handled, is essential to creating positive growth in the company. By invigorating an entrepreneurial spirit, the company can only get stronger. If nothing else, these steps - toward trust in your employees - seem crucial to any organization.

In addition, Collins does discover several interesting facts along the way, including the idea, (that has been discussed in detail in the new book, *In The Company of Owners: The Truth About Stock Options and Why Every Employee Should Have Them*) that the level of executive compensation does not correspond to the level of a great company. In fact, the author shows that with all the great companies, it was more important to instill the right culture in the company than to create the best executive compensation packages. Another interesting point Collins introduced was the idea that of all the companies that were deemed great, not one of the CEOs was well-known. It is somehow comforting that those retired CEOs, who have written multiple autobiographies and collected on their immense severance packages, have not, according to the author, done as much for their companies as the quiet yet effective CEO of the great companies. The warm and fuzzy feeling rises a level when one recognizes the possibility to be great without being born as Lee Iacocca.

The book overall is well-written, easily followed with great anecdotes and simple diagrams. However, I do think everyone can find something of value in *Good to Great*. As instructive as Collins' research is, his book isn't perfect. He uses just one gauge to measure a company's greatness: its share price over 15 years. He points out that he picked a long time frame to edit out one-hit wonders, but as we've seen from the phenomenal upsurge and subsequent bust in the Internet and telecom sectors, stock prices may not be the best way to judge a company's real and lasting nature. The market leaders are not always share-price superstars or profit leaders.

Also, a few of the *Good to Great* companies no longer seem so great. Nucor Corp., for example, had a spectacular run from 1975 to 1990, when the steelmaker's share price rose 5.16 times as rapidly as the overall market. Over the next 10 years, however, Nucor trailed every major stock index, as it has gone through four CEOs. Gillette, too, has been on a steady decline since early 1998, and Wells Fargo was taken over that same year. So much for its legacy.

Still, it's clear that Collins has found a clutch of companies that did transform themselves from so-so to outstanding for at least a 15-year run. And he makes a reasoned argument for how this occurred. Management how-to books can be as faddish as pop music. But Collins again has written a book that seems built to last. The book overall is well-written, easily followed with great anecdotes and simple diagrams and therefore I do think everyone can find something of value in *Good to Great*.