GOOD TO GREAT

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

JIM COLLINS HarperBusiness, 2001

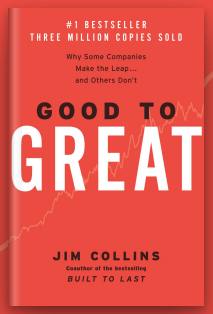
THE QUESTION

"Can a good company become a great company and, if so, how?"

THE STUDY · FIVE YEARS, 21 RESEARCHERS

1,435	126	19	11
Fortune 500 firms	full data analysis	industry analysis	good-to-great

The filter: 15 years at or below the market, a transition point, then **at least 3×** the market for 15 years. Each was matched with a comparison company that didn't make the leap. Result: **6.9× the market** on average; $1 invested in 1965 grew **471-fold** by 2000, the market 56-fold.



The book's framework, redrawn: buildup, then breakthrough, all turned by the flywheel.

BUILDUP . . . → BREAKTHROUGH!

Level 5 Leadership · First Who ... Then What · Confront the Brutal Facts · Hedgehog Concept · Culture of Discipline · Technology Accelerators

Disciplined People | **Disciplined Thought** | **Disciplined Action**

Level 5 Leadership

"an individual who blends extreme personal humility with intense professional will." Their ambition is *"first and foremost for the institution, not themselves."*

- Level 5 Level 5 Executive
- Level 4 Effective Leader
- Level 3 Competent Manager
- Level 2 Contributing Team Member
- Level 1 Highly Capable Individual

Window and mirror. In success they look out the window and credit others, or luck; in failure, in the mirror. Comparison CEOs did the opposite.

Darwin Smith, Kimberly-Clark's in-house lawyer, became CEO in 1971 with the stock 36 percent behind the market. He sold the mills and bet everything on consumer brands like Huggies and Kleenex: 4.1× the market. *"I never stopped trying to become qualified for the job."*

First Who ... Then What

First get the right people on the bus, the wrong people off it and the right people in the right seats; then decide where to drive.

"People are not your most important asset. The right people are."

1. *"When in doubt, don't hire—keep looking."*
2. *"When you know you need to make a people change, act."*
3. *"Put your best people on your biggest opportunities, not your biggest problems."*

Confront the Brutal Facts (Yet Never Lose Faith)

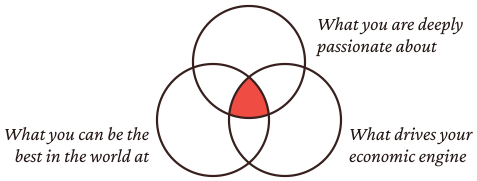
1. *"Lead with questions, not answers."*
2. *"Engage in dialogue and debate, not coercion."*
3. *"Conduct autopsies, without blame."*
4. *"Build red flag mechanisms that turn information into information that cannot be ignored."*

THE STOCKDALE PARADOX

"Retain absolute faith that you can and 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."

Admiral Jim Stockdale, a POW from 1965 to 1973, on who didn't make it out: *"The optimists."*

The Hedgehog Concept



One simple idea where the three overlap, with a single economic denominator, *"profit per x"*. It is *"not a goal, strategy, or intention; it is an understanding."* Walgreens': *"the best, most convenient drugstores, with high profit per customer visit."*

"The fox knows many things, but the hedgehog knows one big thing."

A Culture of Discipline

- Build a culture of *"freedom and responsibility, within a framework."*
- Fill it with self-disciplined people. *"They will 'rinse their cottage cheese.'"*
- *"Don't confuse a culture of discipline with a tyrannical disciplinarian."*
- Stick to the Hedgehog Concept and keep a *"stop doing list"*.

"'Stop doing' lists are more important than 'to do' lists."

The more disciplined you are, the more opportunities come, so *"a great company is much more likely to die of indigestion from too much opportunity than starvation from too little."* The rule: *"If it doesn't fit, we don't do it. Period."* At Nucor in the 1982 recession, worker pay fell 25 percent, officer pay 60 percent and the CEO's 75 percent.

Technology Accelerators

"When used right, technology becomes an accelerator of momentum, not a creator of it."

The test: *"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 not, aim for parity or ignore it.

In the interviews, 80 percent of executives didn't name technology among their top five factors. Walgreens on the internet: *"We're a crawl, walk, run company"*.

The Flywheel vs. The Doom Loop

THE FLYWHEEL EFFECT

Steps forward, consistent with Hedgehog Concept
↓
Accumulation of visible results
↓
People line up, energized by results
↓
Flywheel builds momentum ↻

THE DOOM LOOP

Disappointing results
↓
Reaction, without understanding
↓
New direction, program, leader, event, fad, or acquisition
↓
No buildup; no accumulated momentum ↻

"There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment." Circuit City turned its flywheel for nine years before the breakthrough. And *"while you can buy your way to growth, you absolutely cannot buy your way to greatness."*

What didn't matter

- **Celebrity outside CEOs** were *"negatively correlated"* with the leap; 10 of 11 CEOs came from inside.
- **Executive pay**: 112 analyses, no pattern.
- **Strategy** and long-range planning: no difference.
- **Mergers and acquisitions** did not ignite a leap.
- **Change programs**: they *"paid scant attention to managing change, motivating people, or creating alignment."*
- **A great industry**: only one of the eleven was in one.
- **Motivating people** is *"largely a waste of time"* if you have the right people.

Use it Monday

- Start where the book says: *"work sequentially through the framework, starting with 'first who'"*.
- On a doubtful hire, ask *"would you hire the person again?"*
- Write your three circles and your "profit per x".
- Start a stop-doing list.

CAVEATS COLLINS GIVES

No list of steps to become Level 5: *"we have no solid research data that would support a credible list"*. U.S. public companies only. Gillette and Nucor later stumbled. Offered *"for your thoughtful consideration, not blind acceptance."*

"Good is the enemy of great." · *"Greatness, it turns out, is largely a matter of conscious choice."*

JIM COLLINS