Good to Great

By Jim Collins

Executive Book Summary for CDAC from Keith Walker

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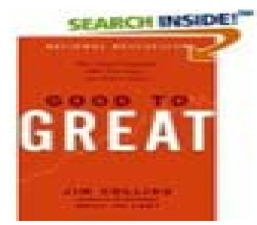
Table of Contents

All it takes is a single question...

"The companies you wrote about [in Built to Last] were, for the most part, always great," he said. "They never had to turn themselves from good companies into great companies. They had parents like David Packard and George Merck, who shaped the character of greatness from early on. But what about the vast majority of companies that wake up part-way through life and realize that they're good, but not great?"

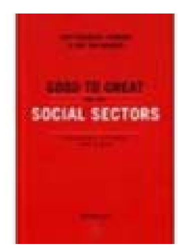
This question, posed to Jim Collins over dinner one evening, inspired the book *Good to Great*. Collins and his research team spent five years answering that question. What makes this book so interesting is not only what was discovered, but the rigor of the discovery process. Collins and his team of twenty dedicated researchers did not hypothesize or theorize, but went directly to data to find the answers.

Put another way, they had nothing to prove and so were open to wherever the data took them.



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

Why Business Thinking is Not the Answer



A similar exchange lead to the monograph, *Good to Great and the Social Sectors*

"If you had taken a different path in life and become, say, a church leader, a university president, a nonprofit leader, a hospital CEO, or a school superintendent, would you have been any less disciplined in your approach? Would you have been less likely to practice enlightened leadership, or put less energy into getting the right people on the bus, or been less demanding of results?" The CEO to whom Collins had posed this question pondered and then replied, "No, I suspect not."

While *Good to Great* used corporations in its research for very practical reasons, the underlying principles apply to any organization, including those in the social sector.

The seven timeless principles Collins and his team discovered in their investigation of good-to-great companies are not business principles, they are greatness principles. This is what the monograph explores through the five most frequently asked questions from social sector leaders in response to *Good to Great*.

The Journey

The research methodology alone, which is described in five appendices, would generate enough material for a book review. Stated very simply, Collins and his team:

1. identified companies that made the leap from good results to great results and sustained those results for at least 15 years
2. compared those companies to a control group of comparison companies that either failed to make the leap or failed to sustain it
3. compared the good-to-great companies against the comparison companies to determine the distinguishing factors

The Good-to-Great Companies

Collins began with a list of 1,435 companies compiled from the *Fortune* rankings (1965 – 1995). This initial list was subjected to a variety of analysis and after much scrutiny all that remained were 11 companies. These companies were unique in that they averaged stock returns 6.9 times the general market in the 15 years after their transition from good to great. Collins puts this into perspective with the following illustration: If you invested $1 in the good-to-great companies in 1965, your dollar would have multiplied 471 times; compare this to $1 invested in the general market, which would have multiplied 56 times during the same time period.

The Comparison Companies

Eleven direct comparisons: companies that were in the same industry with the same opportunities and similar resources at the time of transition, but failed to make the leap from good-to-great.

Six unsustained comparisons: companies that made the leap from good-to-great, but failed to sustain it.

Good-to-Great Companies	**Direct Comparisons**
Abbott	Upjohn
Circuit City	Silo
Fannie Mae	Great Western
Gillette	Warner-Lambert
Kimberly-Clark	Scott Paper
Kroger	A&P
Nucor	Bethlehem Steel
Philip Morris	R.J. Reynolds
Pitney Bowes	Addressograph
Walgreens	Eckerd
Wells Fargo	Bank of America
Unsustained Comparisons	
Burroughs	
Chrysler	
Harris	
Hasbro	
Rubbermaid	
Teledyne	

What's the Difference?

Collins and his team focused on one question in their analysis of the data: What's the difference between the good-to-great companies and the direct and unsustained comparisons?

The data:

- 6,000 articles, systematically coded into categories
- 2,000 pages of transcripts generated from interviews with good-to-great executives who held key positions during the transition
- 384 million bytes of computer data generated from other qualitative and quantitative analysis

Collins systematically reviewed all the data and presented each good-to-great company to the research team along with potential conclusions and questions. They would then "…debate, disagree, pound on the tables, raise our voices, pause and reflect, debate some ore, pause and think, discuss, resolve, question, and debate yet again about "what it all means"."

The total project consumed 10.5 people years of effort.

What does it all mean?

Principle #1: Level 5 Leadership

Level 5 leadership is an empirical finding derived directly from the data. Collins explicitly instructed the research team to ignore the top executives in the good to great companies in an effort to get away from the notion that the results of the transformations were due to leadership. It is easy to credit (or blame) the leaders of organizations, but to do so prevents a deeper analysis and deeper understanding of the question, for example:
Why did company X make the leap from good to great? Because of the leader.
Why did company Y fail to make the leap from good to great? Because of the leader.
The team insisted that the top executives could not be ignored and in the end Collins was convinced, by the data, which identified a particular style of leadership the team coined Level 5 leadership.

Level 5 leadership is exemplified by extreme personal humility and intense professional will. The characteristics of this paradoxical blend are summarized in the following table:

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

The good-to-great leaders never wanted to become larger-than-life heroes. They never aspired to be put on a pedestal or become unreachable icons. They were seemingly ordinary people quietly producing extra-ordinary results.

Principle #2: First Who…Then What

Look, I don't really know where we should take this bus. But I know this much: If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we'll figure out how to take it someplace great.

Consider the following story:
When David Maxwell became CEO of Fannie Mae, his first order of business was to assemble the right people on the management team. Maxwell met with all of the existing Fannie Mae management team and honestly and forthrightly laid out the scope of the challenge before them. The staff members were then in a position to decide for themselves whether or not they were up for the challenge. If they were not, they could leave and, in fact, were encouraged to leave; however, if they decided to stay, they had to measure up. What is stunning about Maxwell's actions is that he focused on hiring the right people while Fannie Mae was losing $1M every single business day. Despite the immense pressure from the board to take some dramatic action to rescue the company, Maxwell focused first on the assembling the right team of people.

This story illustrates the two key points in this chapter:
1. it is not enough simply to get the right people on the bus (and the wrong people off the bus), but this must occur *first* – before vision, before strategy, before tactics, before organizational structure, before technology
2. people decisions must be approached with rigor which translates into three practical disciplines: if you are in doubt, don't hire – keep looking; when you know you need to make a people change, act; put your best people on your biggest opportunities, not your biggest problems

Principle #3: Confront the Brutal Facts

Confront the brutal facts is but one half of the Stockdale Paradox. We live in an age of knowledge and information; however, it is of little use if we do not do believe what we know to be true. Level 5 leaders get the information; accept the facts; and, act.

Information comes to the leaders of organizations in a variety of ways. Surveys and other research techniques can provide data, but often the most critical and most important information comes from people within the organization, *if* there exists a climate where information can flow freely. During the Second World War, Winston Churchill established a department that was entirely outside of the normal chain of command; he called it the Statistical Office and the primary responsibility of the office was to provide him with information that was up-to-date and unfiltered. Churchill created a climate of truth from which he could confront the brutal facts. While it is unlikely that many organizations will create a "Statistical Office", there are other ways to create a climate of truth including:

- using questions, such as why, to gain understanding
- encouraging dialogue and debate where people are engaged in a search for the best answers
- discussing mistakes openly, without blame, to seek understanding and learning
- building mechanisms that force leaders and companies to pay attention to information

Unwaivering faith is the other half of the Stockdale Paradox. The good-to-great companies all maintained an unshakeable belief that they would not just survive, but would emerge better and stronger than before. The good-to-great companies displayed a "hardiness factor" – a term coined by the International Committee for the Study of Victimization to describe people who suffered serious adversity and used the experience as a defining event that made them stronger.

By confronting the brutal facts, good-to-great companies were able to meet the challenges they were facing head on and build plans that allowed them to create something stronger and more powerful.

The Stockdale Paradox: This is a very important lesson. You must never lose faith that you will prevail in the end – which you can never afford to lose – with the discipline to confront the most brutal facts of your reality, whatever they might be.

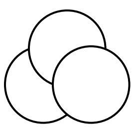
Principle #4: Hedgehog Concept

The Hedgehog Concept is not a goal, strategy or intention; it is an understanding.

Collins uses the essay "The Hedgehog and the Fox" by Isaiah Berlin to illustrate the Hedgehog Concept. Berlin extrapolates from the parable to divide people into two groups: foxes and hedgehogs. Foxes pursue many ends at the same time and see the world in all its complexity. They are "scattered or diffused, moving on many levels," says Berlin, never integrating their thinking into one overall concept of unifying vision. Hedgehogs, on the other hand, simplify a complex world into a single organizing idea, a basic principle or concept that unifies and guides everything. It doesn't matter how complex the world, a hedgehog reduces all challenges and dilemmas to simple ideas. For a hedgehog, anything that does not somehow relate to the hedgehog idea holds no relevance.

Three circles of the Hedgehog Concept::

1. Understand what you *can* be best in the world at versus what you *want* to be best in the world at
2. Do only those things about which you *are* passionate versus striving to *get* passionate about what you do
3. Identify the *one* economic driver that will have the greatest and most sustainable impact



At the intersection of the three circles is the Hedgehog Concept which Collins defines as the turning point in the journey from good to great. If a company has the right Hedgehog Concept and makes decisions relentlessly consistent with it, the main problem the company will have will not be how to grow, but how not to grow too fast.

Principle #5: A Culture of Discipline

Build a culture full of disciplined people who take disciplined action within the three circles, fanatically consistent with the Hedgehog Concept.

Few companies have the discipline to understand their Hedgehog Concept much less the discipline to consistently build within it. This includes not only *doing* only that which fits with the Hedgehog Concept, but also having the discipline to *not do* or the courage to *stop doing* that which does not fit. Good-to-great companies had the discipline and courage to say no to opportunities that didn't fit within the three circles. Once-in-a-lifetime opportunities didn't matter if they did not fit with the Hedgehog Concept.

The three circles of the Hedgehog Concept provide the framework from which good-to-great companies operate. People in good-to-great companies are afforded a great deal of freedom to make decisions that fit within the three circles and are trusted to be fanatically consistent with the Hedgehog Concept. Good-to-great companies understood that the right people will do the right things and deliver the best results they are capable of because they simply cannot imagine doing anything else – thus the good-to-great companies do not manage the people, they manage the system.

People in good-to-great companies also "rinse their cottage cheese". This analogy comes from a story about Dave Scott who won the Hawaii Ironman Triathalon six times. Scott would ride his bike 75 miles, swim 20,000 meters, and run 17 miles – on average, every single day, burning approximately 5,000 calories. And yet, he would rinse his cottage cheese to get the extra fat off. The point of this analogy is Scott believed rinsing his cottage cheese was simply one more small step that he believed would make him better and was part of a program of super-discipline. People in good-to-great companies were like Dave Scott – somewhat extreme in the fulfillment of their responsibilities. People in good-to-great companies had the will to do whatever it took to be the best.

Principle #6: Technology Accelerators

The point of this chapter is simple – there will always be some new technology and the good-to-great companies simply approach it within the same framework as any other decision. If the technology doesn't fit within their three circles, they ignore it. Recall, part of the Hedgehog Concept is having the courage to say no to those things that do not fit within the three circles. However, once good-to-great companies understand which technologies are relevant, they become fanatical and creative in the application of those technologies. Thus, technology is used to accelerate momentum, not to create it.

Technology by itself is never a primary cause of either greatness or decline.

Principle #7: The Flywheel and the Doom Loop

The flywheel image captures the overall feel of what it was like inside the companies as they went from good to great.

Picture a huge, heavy flywheel – a massive metal disk mounted horizontally on an axle, about 30 feet in diameter, 2 feet think, and weighing about 5,000 pounds. Now imagine that your task is to get the flywheel rotating on the axle as fast and long as possible. At first, it takes great effort to move the flywheel, but you keep pushing in a consistent direction. At some point, the momentum of the flywheel kicks in your favor hurling it forward.

Good to great comes about by a cumulative process – a deliberate process of figuring out what needed to be done to create the best future results and taking those steps , one after the other, over an extended period of time. At some point, the companies hit a point of breakthrough, but *there was no miracle moment.* Consider some of the following quotations take from the interviews:

Fannie Mae: "There was no one magical event, no one turning point. It was a combination of things. More of an evolution, though the end results were dramatic."

Pitney Bowes: "We didn't talk so much of change. We recognized early on not so much that we needed to change, but that we needed to evolve, which recognizes that we've got to do things differently. We realized that evolution is a whole different concept than change."

Collins brings the book together extremely well by using the flywheel as a coherent framework. Each piece of the system reinforces the other parts to form an integrated whole that is much more powerful than the sum of the parts. Each piece produces a push on the flywheel.

The Social Sector: Top Five Questions

The critical distinction is not between business and social, but between great and good.

Question #1: Is it possible to measure success without business metrics? The answer: yes

This principle is the same for both business and the social sector; what differs is how superior performance is measured. In the social sector, performance is not necessarily measured by profit per *x*, but it can be measured. The point that Collins makes is that what really matters is settling upon a *consistent and intelligent* method of assessing your output results, and rigorously tracking your progress.

Collins re-frames the entire good-to-great framework as a set of input variables that correlate strongly with creating the outputs of greatness.

Inputs of Greatness **By Applying the Good-to-Great Framework**	**You Build the Foundations Of**	**Outputs of Greatness** **A Great Organization**
Disciplined People		Delivers Superior Performance
Disciplined Thought		Makes a Distinctive Impact
Disciplined Action		Achieves Lasting Endurance

A great organization is one that delivers superior performance and makes a distinctive impact over a long period of time.

Question #2: How do Level 5 leaders get things done without concentrated, executive power? The answer: persuasion, political currency and shared interests

Collins describes two types of leadership skills: executive and legislative. If a leader doesn't have enough concentrated power to simply make the right decisions (executive leadership), then they must rely upon persuasion, political currency and shared interests (legislative leadership) to create the conditions for the right decisions to happen. Most social sector leaders do not have concentrated power and therefore must rely more on legislative leadership.

The paradoxical blend of personal humility and professional will associated with Level 5 leadership are particularly important to the social sectors because of the legislative dynamic. Consider the following: Level 5 leaders are ambitious for the work and set the standards for building an enduring company – which I speculate inspires shared interests; they look out the window to apportion credit for success and look in the mirror to apportion responsibility for poor results – which helps them build political currency; and, they act with quiet, calm determination, relying on inspired standards to motivate and demonstrate unwavering resolve to do whatever must be done to produce the best results – which would help them persuade their colleagues to join them in making the decisions and/or changes necessary for the long-term greatness of the institution.

Collins speculates that tomorrow's great business leaders may very well come from the social sectors, not the other way around.

True leadership only exists if people follow when they have the freedom not to.

Question #3: How do you get the right people on the bus, within social sector constraints?
The asnswer: tap into passion and rigorously assess performance early

Collins uses two stories to illustrate two of the biggest constraints within the social sectors:

1. the lack of big monetary incentives (or no compensation at all in the case of volunteers)
2. tenure or the status that gives protection from dismissal

Money by itself can never attract the right people.
Collins notes that the social sectors have one compelling advantage over business: people desperately crave meaning in their lives – meaning, not money. Social sector organizations can tap into these idealistic passions easier than businesses because of the nature of their work. In addition, it is a fundamental truth that the more selective something is, the more attractive it becomes. If a social sector organization is really interested in getting the right people to work for it, a highly selective process will increase the prestige associated with working (or volunteering) at the organization.

You can only know for certain about a person by working with that person.
Because getting the wrong people off the bus can be more difficult in the social sectors, early assessment mechanisms turn out to be more important than hiring mechanisms. This involves creating a culture where the standard is that you will most likely *not* get tenure unless you have proven yourself worthy as opposed to a culture where tenure is an expectation for acceptable performance.

Collins speculates that tomorrow's great business leaders may very well come from the social sectors, not the other way around!

Question #4: What replaces the economic driver in the Hedgehog Concept?
The answer: the resource engine

Consider the following exchange between Collins and a church minister:
Minister: We're passionate about trying to rebuild this community, and we can be the best in our region at creating a generation of transformational leaders that reflects the full diversity of the community. That is our Hedgehog Concept.
Collins: And what about the economic engine?
Minister: Oh, we had to change that circle. It just doesn't make sense in a church. We rely on much more than money to keep this place going. How do we get enough resources of *all* types – not just money to pay the bills, but also time, emotional commitment, hands, hearts, and minds?

There is a fundamental difference between the business and social sectors as it relates to the third circle of the Hedgehog Concept – in social sectors it shifts from the concept of an economic engine to that of a resource engine. Collins defines three components of the resource engine: time, money and brand.

Time refers to how well you attract people willing to contribute their efforts without big monetary incentives or for free (volunteers) – First Who…

Money refers to sustained cash flow which in the social sector fall into one of four quadrants: heavily government-funded, charitable support by private individuals, charitable donations with business revenues, heavy reliance on business revenues. Each economic quadrant demands its own unique skills for generating cash flow. For example, the church in the above example relied upon charitable support by private individuals; therefore, the resource engine depended heavily on personal relationships and excellent fund-raising.

The wide variation in economic structures in the social sectors increases the importance of the hedgehog principle. You begin with passion, you refine passion with a rigorous assessment of what you can best contribute to the communities you touch, then you create a way to tie your resource engine directly to the other two circles.

Question #5: What turns the flywheel in the social sectors? The answer: building a brand reputation

In the social sectors, momentum is built by building a brand reputation so that potential supporters believe not only in your mission, but in your capacity to deliver on that mission. The principle remains the same, success breeds support and commitments, which breeds even greater success, which breeds more support and commitment.

Assuming you can build a brand that people care about, the challenge then becomes one of sustained access to resources; unfortunately, in the social sectors there is no guaranteed relationship between exceptional results and sustained access to resources. In fact, Collins points to an article by Clara Miller, "Hidden in Plain Sight", which shows nonprofit funding tends to favor programmatic funding over building great organizations. An example from my own world illustrates the point: people want to support students and give money to the University for student awards; however, very few donors provide unrestricted donations which could be used to support the University's priority initiatives (eg – entrance scholarships). Most donors want to have some say in how their money is spent (eg – in-course scholarships for a student in a particular college that might already have a lot of money for their upper year students) . Collins suggest the best thing supporters of non-profits can do is to give resources that enable the institution's leaders to do their work the best way they know how.

Brand reputations give people an easy way to support a cause they care about.

Summary ★★★★★

I highly recommend reading both *Good to Great* and *Good to Great and the Social Sectors*; however, would not recommend reading the monograph in isolation. In *Good to Great and the Social Sectors* Collins quickly goes through the highlights of the principles relevant to the social sectors, but it assumes to a certain extent that the reader has already read *Good to Great*.

Good to Great is easy to read and easy to understand, largely because Collins uses story-telling to drive home the principles derived from the research. Given the incredible amount of data generated and the rigor of the research, it would have been easy to churn out a book that portrayed a scientific analysis of the data. Instead, each company becomes a case study and real life examples are used to illustrate the key findings. Collins uses a similar style in *Good to Great and the Social Sectors* and it is also a very easy read.

The stories Collins uses to illustrate the key findings in both books have a certain resonance for the reader because it is easy to make the leap from the situations in the good-to-great companies to our own lives. In all likelihood, the reader will find themselves nodding and thinking about a similar challenge that they have faced in their own organization. For example, two reorganizations have driven home, for me, the importance of having the right people on the bus (and the wrong people off the bus) and in the right seats. I expect this principle will serve as a touchstone for the rest of my professional life as I have lived the effects of having the wrong people on the bus.

I expect readers will also appreciate the simplicity of the principles that Collins and his team discovered. As organizations become more complex, it is refreshing to have a simple framework; however, be warned that while the principles may be simple, the implementation of them requires great discipline – discipline people, disciplined thought and disciplined action.

For those of us who work in the social sector, the monograph helps deepen understanding of the good-to-great principles. Interestingly, I found that when I first read *Good to Great* I didn't think I had any trouble making connections from business to my own work in the social sector; however, I realized that it was likely because it was an R1 read. I appreciated the monograph much more when reading, reading, reading.

Finally, I have discovered that not only can the principles in *Good to Great* be applied to business and the social sector, but they can also be applied to our individual lives because the principles really are about greatness. Kelly

Greatness, it turns out, is largely a matter of conscious choice, and discipline.