

Good to Great by Jim Collins

Cliff Notes

Max Hodgen

Chapter 1 - Good is the Enemy of Great

Theme of the book – Discovering what made good companies great.

***Phase 1: The Search**

A six month long financial analysis looking for companies that showed the following basic pattern: 15 years cumulative stock returns at or below the general stock market, punctuated by a transition point, and then cumulative stock returns three times higher than the general stock market for 15 years.

***Phase 2: Compared to What**

‘Direct comparison’ – companies where identified based on: the same industry, opportunity and resources at the time of transition, but failed to show no leap from good to great.

‘Unsustained comparison’ – companies that displayed short good to great traits but couldn’t maintain them.

The main question was what did the good-to-great companies share in common that distinguished them from the comparison companies?

The study resulted in eleven good-to-great companies, eleven direct comparison companies, and six unsustained comparison companies.

***Phase 3: Inside the Black Box**

The analysis of each case was then categorized by strategy, technology, leadership, and so on. The analysis also includes: interviewing executives, acquisitions, business strategy, executive layoffs, financial ratios, and compensation. It was estimated that the analysis consumed 10.5 years of people effort, in an attempt to develop a systematic approach of contrasting the good-to-great companies to the comparison.

***Phase 4: Chaos to Concept**

- Developing a framework of concepts
- Meeting rigorous standards before deeming it significant
- The final framework and concepts are Not the opinions of the research team

Chapter 2: Level 5 Leadership

“You can accomplish anything in life, provided that you do not mind who gets the credit.”

– Harry S. Truman

*Hierarchy – This chapter focuses on the traits of Level 5 Leaders

Level 5 – 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 clear and compelling vision stimulating higher performance standards

Level 3 – Competent Manager

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

Level 2 – Contributing Team Member

Contributing individual capabilities to achievement of group objectives and works 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

Humility

Never let your ego get in the way of your ambition for the company and concern for its success.

Compelling modesty – always attributing success to other factors other than themselves

Typical descriptions of interviews with the Level 5 leaders included: quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated...

Will

Unwavering Resolve to do what must be done

A ferocious resolve and determination to produce results – fanatically driven

Inspired standards – could not stand mediocrity

Most of the good-to-great CEOs came from within the company three of them from family inheritance, and they weren't afraid to make top level changes. George Cain, CEO of Abbott Laboratories,

“Neither family ties nor length of tenure would have anything to do with whether you held a key position in the company. If you didn't have the capacity to become the best executive in the industry in your span of responsibilities, then you would lose your paycheck.”

\$1 invested in Abbott in 1974 (transition point) would have been worth \$271 in 1995!

*The Window & Mirror

Most of the CEOs stated luck as a factor to their company's success, which most likely can be traced back their humility. But the fact that it came up over and over again prompted the authors to give it

Chapter 2 Continued

some considerations. “When comparing the good-to-great companies with the comparison group they found: Level 5 leaders look out the window to apportion credit to factors outside themselves and if they can’t find someone to give credit to - they credit luck, and look in the mirror to apportion responsibility, never blaming bad luck when things go poorly. Conversely, the comparison leaders did the opposite, looking out the window for something to blame and in the mirror to credit themselves.

***Cultivating Level 5 Leadership – Can you learn to become Level 5?**

Nothing concrete to suggest Level 5 leadership is engrained or learned. The biggest obstacle is the balance of personal ambition and humility – putting aside egotistical needs for the betterment of building something greater than oneself. For most people work is about what they get.

Chapter 3 First Who...Then What

“There are going to be times when we can’t wait for somebody. Now, you’re either on the bus or off the bus.” – Ken Kesey

***Transformation**

Get the right people on the bus, the wrong people off, and then figure out where to drive it.

Must begin with “who” rather than “what” – Reason, if people are on the bus because of ‘where’ then what happens when the bus changes direction?

The right people on the bus eliminate the need to motivate and manage.

Get the wrong people off the bus – great vision without great people is irrelevant.

In the 1970’s CEO Dick Cooley (Wells Fargo), instead of mapping out a strategy for the deregulation changes he hired outstanding people whenever and wherever they found them, often without any specific job in mind. \$1 invested in Wells in 1973 was worth \$74.47 in 1998.

***Not a “Genius with a Thousand Helpers”**

The comparison companies were more concerned with getting one individual as the primary driving force for the company’s success. The genius at top rarely built strong management teams – they didn’t want one. All they wanted was good soldiers, but when the genius left the soldiers couldn’t make decisions on their own.

***Difference in Philosophy**

Good-to-Great Companies

Level 5 + Management Team

First Who – build a superior executive team

Then What – figure out the best path to greatness

Comparison Companies

A Genius with a Thousand Helpers

Chapter 3 Continued

Level 4 Leader

First What – set a vision for where to drive the bus

Then Who – enlist a crew of highly capable helpers

*It is who you pay, not how you pay them

The study found no systematic pattern linking executive compensation to the process of going from good to great. The use of stock options, high salaries, bonus incentives, or long term compensation weren't a factor in making the transition.

The most important factor was getting the right people on the bus. Nucor stated the most important asset is the right people, and placed greater weight on character attributes than on specific educational backgrounds, practical skills, specialized knowledge, or work experience. Nucor returned 5.16 times the market from 1975 to 1990.

*Rigorous, Not Ruthless

If you don't have what it takes, you probably won't last long. To be rigorous means to apply exacting standards at all levels. During most acquisitions the good-to-great companies would terminate large portions of the old firm's employees, only keeping the best. When Wells Fargo acquired Crocker it terminated 1600 employees. Their mind set was, "If they aren't going to make it on the bus in the long term, why let them suffer in the short term." They thought it was more ruthless to let someone linger around who they would have to fire in the end.

*How to be Rigorous

Practical Discipline

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.

Chapter 4 – Confront the Brutal Facts

*Facts are better than dreams

When it came to making tough decisions the good-to-great companies infused the entire process with the brutal facts of reality. When you're honest about your situation the solutions are generally self evident.

*Create a culture where people have an opportunity to be heard

Don't focus on motivating people through the vision, get the right people on the bus and share with them the findings of the company. The best way to de-motivate people is to hold out false hope.

*4 Basic principles in creating the culture

1. Lead with questions not answers

Chapter 4 Continued

Use questions for one and one reason, to gain understanding. Don't question to manipulate or place blame

2. Engage in dialog and debate, not coercion

Create intense dialog, don't use discussions as a sham process to people buy in to a predetermined decision.

3. Conduct autopsies, without blame

When you conduct autopsies without blame, you go a long way toward creating a climate where the truth is heard

4. Build red flag mechanisms

Turn information into information that can't be ignored

*Unwavering Faith amid the Brutal Facts

Darwin Smith of Kimberly-Clark stated on taking on Proctor & Gamble, "We will never give up. We will never capitulate. It might take a long time, but we will find a way to prevail."

*The Stockdale Paradox

"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 current reality, whatever they might be." Admiral Jim Stockdale, prisoner of war 1965 – 1973, tortured over 20 times.

Retain 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.

Chapter 5 – The Hedgehog Concept

The good to great companies are more like hedgehogs – simple, dowdy creatures that know "one big thing" and stick to it. Consistency

*The Hedgehog concept

Is a simple, crystalline concept that flows from deep understanding about the intersection of the following three circles:

1. What you can be the best at in the world, and what you can't?

"They stick with what they understand and let their abilities, not their egos, determine what they attempt." Warren Buffet about his \$290 million investment in Wells Fargo

The hedgehog concept is not a goal, strategy, or intention; it is an understanding.

2. What drives your economic engine?

How to most effectively generate sustained and robust cash flow and profitability

3. What are you deeply passionate about?

Not to stimulate passion but to discover what makes you passionate

* Three Circles

Chapter 5 Continued

You want to find the intersection of what you can be best at, what drives your economic engine, and what you are passionate about. Don't just settle for what you are good at; focusing solely on what you can potentially do better than any other organization is the only path to greatness.

Economic Insight – “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?”

Understanding Passion – Don't try to inspire passion about what you are doing, do things that we can get passionate about.

*Circuit City's Hedgehog Concept

To become the best at implementing the “4-S” model (service, selection, savings, satisfaction) applied to big ticket consumer sales. Its distinction lay not in the “4-S” model per se – but in the consistent, superior execution of the model. The cumulative value of \$1 invested in Circuit City in 1972 would have been worth \$311.64 in 1992!

Chapter 6 – A Culture of Discipline

*Bureaucracy

George Rathmann, cofounder of biotech company Amgen, help grow the struggling company into an entrepreneurial enterprise worth \$3.2 billion and 6,400 employees. An investment of \$7,000 in 1983 would have been worth over \$1 million. George understood that the purpose of bureaucracy is to compensate for incompetence and lack of discipline - a problem that largely goes away if you have the right people on the bus in the first place. Most companies build in their bureaucratic rules to manage the small percentage of wrong people, which in turn drives away the right people, which then increases the wrong people on the bus, which then increases the need for more bureaucracy. Rathmann understood an alternative existed: avoid bureaucracy and hierarchy and instead create a culture of discipline.

Set your objectives for the year in concrete, you can change your plans but never change what you measure yourself against.

*Discipline Action within the Three Circles

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

The 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 managed, and then managed the system, not the people.

2. Fill that culture with self-disciplined people who are willing to go to extreme lengths to fulfill their responsibility.

People in good-to-great companies became somewhat extreme in the fulfillment of their responsibilities, bordering in some cases on fanaticism. They will do whatever it takes to turn potential into reality – “Raising Your Cottage Cheese”

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

Chapter 6 Continued

The good-to-great companies had level 5 leaders who built an enduring culture of discipline, the unstained comparisons had level 4 leaders who personally disciplined the organization through sheer force.

4. Adhere with great consistency to the Hedgehog Concept, exercising an almost religious focus on the intersection of the three circles. Equally important, create a 'stop doing list' and systematically unplug anything extraneous.

The good-to-great companies followed a simple mantra: "Anything that does not fit with our Hedgehog Concept, we will not do. We will not launch unrelated business. We will not make unrelated acquisitions. We will not do unrelated joint ventures. If it doesn't fit, we don't do it. Period."

*Start a 'Stop Doing' List – it is more important than a 'To Do' List

Chapter 7 – Technology Accelerators

*Technology and the Hedgehog Concept

Technology-induced change is nothing new. The real question is not, what is the role of technology? Rather, the real question is, how do good-to-great organizations think differently about technology? The good-to-great companies slowly adapted the technology to fit their Hedgehog Concept. Gillete – Pioneered application of sophisticated manufacturing technology for making billions of high-tolerance products at low cost with fantastic consistency. They protect manufacturing technology secrets with same fanaticism that Coca-Cola protects its formula. The cumulative value of \$1 invested in Gillete in 1976 was worth \$95.68 in 1996.

*Technology as an Accelerator, Not a Creator, of Momentum

When used right technology becomes an accelerator of momentum, not a creator of it. The good-to-great companies never began their transition with pioneering technology, for the simple reason that you cannot make good use of technology until you know which technologies are relevant. And which are those? Those – and only those – that link directly to the three intersecting circles of the Hedgehog Concept.

The relationship to technology is no different from the relationship to any other category of decisions. Technology alone cannot create sustained great results.

*Technology Trap

Mediocrity results first and foremost from management failure, not technology failure. Evidence from the study does not support the idea that technological change plays the principal role in the decline of once-great companies. Technology is never the primary cause of either greatness or decline.

*Technology and the Fear of Being Left Behind

Chapter 7 Continued

Great companies respond with thoughtfulness and creativity, driven by a compulsion to turn unrealized potential into results; mediocre companies react and lurch about, motivated by fear of being left behind. No technology can make you level 5. No technology can turn the wrong people into the right people. No technology can create a culture of discipline.

Chapter 8 – The Flywheel and the Doom Loop

*Flywheel Image

Imagine that your task is to rotate a massive 30 foot, 5000 pound disk. You push with great effort, you get the flywheel to inch forward and after a few hours you get the flywheel to complete one turn. You keep pushing, and the flywheel begins to move a bit faster, with continued great effort, you move it around a second time. You keep pushing in a consistent direction. Then three turns...four....five... the flywheel builds up speed...six turns...seven....eight...it builds momentum... 20...30...50...a hundred. Then at some point – breakthrough! The momentum of the whole thing works in your favor.

*Buildup and Breakthrough

The good-to-great companies came about by a cumulative process – step by step, similar to spinning the flywheel above. There was no single defining action, no one killer innovation, and no solitary lucky break. One Fannie Mae representative on the ‘magic moment’:

“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.” The cumulative value of a \$1 invested in Fannie Mae in 1984 would be worth \$64.17 in 2000.

*The Flywheel Effect

Think of a circular model that continues to wrap around highlighted by four themes:

1. Accumulation of visible results
2. People line up, energized by results
3. Flywheel builds momentum
4. Steps forward, consistent with Hedgehog Concept

*The Doom Loop

Rather than accumulating momentum – turn by turn of the flywheel – the comparison companies tried to skip buildup and jump immediately to breakthrough. Then, with disappointing results, they’d lurch back and forth, failing to maintain a consistent direction.

Doom Loop Model:

1. No buildup; no accumulated momentum
2. Disappointing results
3. Reaction, without understanding
4. New direction, program leader, event, fad, or acquisition

Chapter 9 – From Good to Great to Built to Last

Chapter 9 is a comparison of Good to Great and a previous book by Collins, Built to Last.

*Four conclusions when looking at both studies

1. The enduring great companies from Built to Last followed the good-to-great framework.

There was a buildup-breakthrough flywheel process for many. It took Sam Walton 25 years of building up momentum before the transition in 1970 where Wal-Marts grew from 38 chains to over 3,000 by the year 2000. Then there is Bill Hewlett and David Packard of Hewlett-Packard, whose entire founding concept for HP was not what, but who – starting with each other of course. The founding meeting in 1937, begin by stating that they would design, manufacture, and sell products in the electrical engineering fields, but the question of what to manufacture was postponed.

2. Good to Great is not a sequel to Built to Last but a prequel.

Apply the finding of Good to Great to create sustained great results, as a start-up or an established company, and then apply the findings Built to Last to go from great results to an enduring great company.

3. To make the shift from a company with sustained great results to an enduring great company of iconic stature, apply the central concept from Built to Last: Discover your core values and purpose beyond making money and combine this with the dynamic of preserve the core/stimulate progress.

4. Good to Great answers a fundamental question raised, but not answered, in Built to Last: What is the difference between a “good” BHAG (Big Hairy Audacious Goal) and a “bad” BHAG.

A. Clock building, not time telling

Build an organization that can endure and adapt through multiple generations of leaders and multiple life cycles.

B. Genius of AND

Instead of choosing A or B, figure out how to have A and B – purpose AND profit, continuity AND change, freedom AND responsibility

C. Core ideology

Instill core values and core purpose as principles to guide decisions and inspire people

D. Preserve the core/stimulate the progress

Preserve the core ideology as an anchor point while stimulating change, innovation, and renewal in everything else.

*Why Greatness

The real question is not, “Why Greatness?” but “What work makes you feel compelled to try to create greatness?” If you have to ask the question, “Why should we try to make it great? Isn’t success enough?” then you’re probably engaged in the wrong line of work.