Jim Collins' Good to Great
Summary by Gene Early

Overview

Jim Collins' premise in this book is that "Good is the enemy of great." The seed of the idea for the book came from a challenge by an organizational thought leader, Bill Meehan, who suggested that most companies never make it to great. Collins' curiosity drove him and his team into a five year research effort to find out how good companies became great. The team culled its initial list of 1435 companies down to two groups of eleven, one representing companies that made the breakthrough to greatness, and the other, a comparison group which failed to do so.

In addition, the good-to-great companies were defined by having 1) a history of cumulative stock returns equal to or below the general stock market, 2) followed by a breakthrough, 3) leading to performance with cumulative returns at least three times the general market over fifteen years following their breakthrough point.

The result of this intensive research answers the question, "Can a good company (organization) become a great one, and, if so, how?" Good companies and organizations *can* make the leap, and the book offers a framework consisting of a set of universal principles pointing the way toward how it can be done. Collins' and his team found that "every primary concept in the final framework showed up as a change variable in 100% of the good-to-great companies and in less than 30% of the comparison companies during the pivotal years."

The Framework

Level 5 Leadership

With some surprise, Collins' and his team found that the type of leadership did make a difference. Leaders of the good-to-great companies were not high profile and celebrity focused. Rather they demonstrated a personal humility *and* professional will revealing a fierce resolve to do what was best for the company, not the leader him or herself.

These leaders were labeled Level 5. Lower levels included *effective leader*, *competent manager*, *contributing team member*, and *highly capable individual*. These Level 5 leaders were…

- …building "enduring greatness" into their organizations
- …setting their successors up for success
- …talking about the company and others, but declining to discuss themselves
- …ordinary people producing extraordinary results
- …most likely to come from within the company, not outside of it
- …quick to give credit outside themselves when there was success, while at the same time taking personal responsibility when things went badly
- …distinctive in their approach to the people they wanted in the company.

First Who, Then What

What did these Level 5 leaders do first? Was it setting a new vision and strategy? In fact, no. They approached their challenges by "*first* [getting] the right people on the bus, the wrong people off the bus, and the right people in the right seats—and then [they] figured out where to drive it." Three simple principles emerged from this emphasis on the *who* prior to the *what*…

- *Adaptability*. The right people on the bus makes adapting to changing realities much easier. When people are attracted to work with other good people, they will figure out what needs to be done when direction changes.
- *Motivation*: The right people are self-motivated. They want to be part of something great. They will do what's necessary to produce greatness.
- *Selection*: With the wrong people on the bus, it doesn't matter if you're going the right direction. It is impossible to have a *great* company with them.

Furthermore, these Level 5 leaders wanted top players as well top effort. They used compensation to attract the right people, not as a motivation for their work. They knew that the right people live with a "moral code [that] requires building excellence for its own sake." These leaders were rigorous, not ruthless in people decisions using at least three practical disciplines regularly…

- *Hiring*. When in doubt, don't hire—keep looking. For a company to become great, there must be enough of the right people to sustain its growth.
- *Act decisively*. When you know you need to make a people change, act. Know the characteristics of who you need, bring people like that on, evaluate them quickly and consistently, and act to remove them if they do not fit.
- *Best person/best opportunity*. Put your best people on your biggest opportunities, not your biggest problems. The question is, Are you going to manage your problems, or build your opportunities?

Finally, Collins identified three characteristics which executive leaders in the good-to-great companies had to have: competence, chemistry and character. Competence is the capacity to be the best person in the industry at the job. Chemistry is the depth of respect and love that allows executive team members to yell and scream, argue and debate but remain committed to one another and cohesive in what's best for the organization. Character relates to the implicit values required to fit into the management team. Collins finally concluded, "The people we interviewed from the good-to-great companies clearly loved what they did, *largely because they loved who they did it with*."

Confront the Brutal Facts with Unwavering Faith

Good-to-great companies embodied a paradox of facts and faith. Unwavering faith that the company will prevail undergirded good-to-great companies' ability to confront the brutal facts of the current reality, no matter what they were.

Good companies became great through making and executing on good decisions. As these good decisions and their execution accumulated over time, momentum was built to move the good company to the point of breakthrough. In this analysis, it became clear that good decisions required honest assessment of the brutal facts, and this assessment in itself often led to right decisions becoming self-evident.

The discipline of paying attention to the brutal facts of reality distinguished Level 5 leaders and good-to-great companies. Central to this discipline was a culture which invited people at every level to speak up *and* be heard. Only as the quietest voice is heard could the truth come out, and gaining that truth was what energized this discipline. Collins' and his team identified four basic practices for creating a culture where the truth is heard…

- *Lead with questions, not answers*. The purpose of the questions was to gain true understanding, not to manipulate. This practice is further demonstration of the Level 5 leaders' humility to know that he or she was not sufficient in themselves to have all the answers.
- *Engage in dialogue and debate, not coercion*. The goal was to find the best answer and those involved were committed to whatever it took to get this answer *because* they were fully engaged for the good of the organization.
- *Conduct autopsies, without blame*. With the right people on the bus and in the right seats, there should be no need to assign blame, even for the biggest mistakes. Rather, 1) accepting responsibility for the mistake, or failure, 2) dissecting it to learn from it, and then 3) applying this learning in future situations creates a culture of greatness.
- *Build red-flag mechanisms that can't be ignored*. Good-to-great companies have no greater access to information than other companies. They have just identified ways to trigger adaptive responses to the information they get—whether from customers or employees, vendors or collaborators. Acting on such input honors the one who gives it and improves the individual and/or company that receives it.

Confronting the brutal facts truthfully was found to energize good-to-great companies. It gave them a sense of exhilaration because they believed that they would prevail in the end. Because of this attitude, each confrontation made them individually and collectively stronger.

Every good-to-great company persevered through significant adversity. This required accepting the brutal facts of reality *and* maintaining unwavering faith that the company would prevail. Combining these two qualities and not being swayed by unrealistic optimism nor self-defeating pessimism characterized these great companies.

They had the attitude of Admiral Jim Stockdale, eight year, Viet Nam POW, who said, "You must never confuse 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 may be." By doing this consistently, Admiral Stockdale was able to turn his imprisonment into the "defining moment of his life," as these good-to-great companies did in facing their own adversities.

Hedgehog Concept

What is the one big thing you and your organization can be best at? The answer to this question is the essence of the Hedgehog Concept. Collins and his team took the metaphor from Isaiah Berlin's essay in which he wrote, "The fox knows many things, but the hedgehog knows one big thing."

The Good to Great model for getting to the core of this one big thing identifies three overlapping circles. Where all three intersect one finds the complexity of the company's world becoming profound simplicity. It is this clarity, or deep understanding, which guides the strategies, goals, and intentions of the company. The three key elements for developing the Hedgehog Concept require answering three questions, called the "three circles"…

- *What can you be best in the world at*? The answer to this one is an identity statement defining the character of the company (or organization) and leading to strategies, goals, and intentions that express the identity. This identity is expressed through a set of skills and talents that make the identity evident. As a result, the answer may not be what you are already good at. It is rather what you can be great at, really great.
- *What are you passionate about*? The idea is to *discover* your passion, not to get a good idea and try to rev up the passion. It may mean that the choice of your Hedgehog Concept is something that you can get passionate about. This circle supports the underlying notion that with the right people (sharing this passion), you don't have to motivate them. They are motivated because they share the passion and are energized by the work they're involved in. The passion may be at different levels, e.g. the mechanics of the business, the results it produces, or for what the company stands for.
- *What drives your economic engine*? The key to this question is "the denominator" in a simple equation. In for-profits, the equation is "profit per *x*." In non-profits, it is "cash flow per *x*." A further question focusing this idea is, "If you could pick one and only one ratio—profit per *x* or cash flow per *x*—to systematically increase over time, what *x* would have the greatest and most sustainable impact on your economic engine?" The *x* might be customer visit (Walgreens), mortgage risk level (Fannie Mae), employee (Wells Fargo), local population (Kroger), or consumer brand (Kimberly-Clark).

Collins writes that "The Hedgehog Concept is a turning point in the journey from good to great." *It typically takes the right people willing to address the brutal facts over an extended period of time to get to the deep understanding of a Hedgehog Concept.* One mechanism that Collins recommends involves the following cycle…

- Get the right people involved over time.
- Ask the right questions, such as the three key ones from the Hedgehog Concept.
- Engage in intense debate over these questions
- Make decisions
- Autopsy the results without blame
- Learn from the process and apply those learnings to the next cycle.

To accelerate the process of getting clarity, he recommends, "Increase the number of times you go around that full cycle in a given period of time."

Once you get the Hedgehog Concept, it rings true. There's no hoping or wishing involved, there is a knowing that you could be best in the world at what you've discovered. This confidence is built on all the work, the debate, the action and evaluation you've been engaged in. And it crystallizes around this core understanding of who you are as a company, or for that matter, as a person.

When you have identified your Hedgehog Concept at a personal level, you are able to say, "I feel I was just born to do this," "I get paid for this, for what I love to do? I must be dreaming," and "I look forward to getting up and throwing myself into my daily work. I enjoy the actual process of working for its own sake." Using your understanding of these three circles, you are then able to define the profound simplicity of the core of your Hedgehog Concept.

Culture of Discipline (Combined with an Ethic of Entrepreneurship)

One key to greatness is the subtle but powerful combination of responsibility and freedom. Good-to-great companies create a culture of discipline. They attract disciplined people, reward disciplined thought, and celebrate disciplined action. Such an orientation enables them to avoid bureaucracy which is created to compensate for incompetence and lack of discipline. Such freedom within a framework empowers creativity *and* productivity. It is this framework, or system, which the good-to-great companies managed. Individuals within the system were not the primary focus because they were expected to adhere intensely to the company's focus (their Hedgehog Concept's "sweet spot") and make the system work. The three components of discipline keep repeating…

- Getting self-disciplined people on the bus.
- Such people demonstrate the discipline to confront the brutal facts *and* maintain unwavering faith in the ultimate success of the system (as demonstrated most succinctly in understanding their Hedgehog Concept and adhering to it.)
- And finally, these people express the discipline of action by measuring that action against their Hedgehog Concept.

This discipline involves the commitment to do whatever it takes to become great.

Collins and his team found a major distinction between good-to-great companies and their comparisons in this area of discipline. Good-to-great companies developed a *culture* of discipline where the entire company owned responsibility for their Hedgehog Concept and all the basics of becoming great. Comparison companies most often had highly disciplined leaders, but weren't able to establish a culture that supported that discipline.

The challenge all these companies faced was not in finding opportunities for growth, but rather in selecting the right opportunities. As a result, the "stop doing" list is an important tool used by these companies in various forms. Essentially, it is the discipline to still the noise of activities that did not contribute directly to the Hedgehog Concept. While different companies used different practices, examples included removing all titles except those essential to external situations, dismantling empire building, and re-thinking budgeting. With regard to budgeting for example, the question became, "What should be fully funded because it contributes to the Hedgehog Concept, and what should be eliminated because it doesn't contribute (enough)?" This takes courage, and great companies demonstrated this type of courage over and over.

This work on what moves companies from being good to great operates on an enormous presupposition—the idea of "right"—as in the right people, the right seats on the bus, thinking rightly, and doing rightly (and stop doing wrongly). So how do you "get it right." Collins would say that there isn't a single answer. Rather, it is a systemic understanding of the whole—leadership, people, truth-seeking, focus, discipline, acceleration, and momentum—and continuously operating on this coherent set of interacting principles. The discipline to live this systemic understanding requires…

- Building a *culture* that emphasizes freedom and responsibility within the constraints of an intensely focused framework.
- Populating that culture with self-disciplined people committed and able to go to extreme lengths to fulfill their responsibilities.
- Recognizing that culture is a system, not an individual, and that everyone shares in responsibility for greatness, not simply a strong disciplinarian.
- Adhering with intense concentration to the intersection of the three circles of the Hedgehog Concept while being disciplined to systematically stop doing what doesn't fit.

Technology Accelerators

Part of this discipline involved how these companies viewed technology. They avoided many opportunities and focused on *selection* of technologies most applicable to forwarding their Hedgehog Concept. As a result, technology became simply one more accelerator of momentum for these companies. With the deep understanding that came from their focus on the three circles, they *all* came to be pioneers in the application of technology as it fit with their Hedgehog Concept. Thinking associated with this principle includes the process of asking…

- Does the technology fit directly with your Hedgehog Concept?
- If yes, then you need to be a pioneer in the application of that technology.
- If no, then ask, do you need this technology at all?
- If yes, then all you need is parity.

Collins and his team concluded that the comparison companies could have been given the same technology good-to-great companies used, and still fail to produce equivalent results. Why is that? It is one more example of the inner drive of a company's character and culture. Great companies are not driven by fear—of the marketplace, of economic circumstances, or technology advances. They are driven by the potential they see and the stimulation of actualizing that potential. Technology contributes to this drive, but once again it is the interaction of principles in the "good-to-great" model that produces and sustains greatness.

Flywheel and Doom Loop

Think momentum. Good to great companies not only have it, but they've found a way to harness it in service of their Hedgehog Concept. The metaphor that Collins uses for this concept is the flywheel. He creates an image of a massive disk rotating on an axle. Each incremental push in the beginning appears to have little effect. However, with many people contributing, consistently over time through disciplined thought and action, the flywheel begins to move ever so slowly, increasing its speed until at a certain point there's a breakthrough. The force of all those little pushes has created enough energy moving this gigantic wheel that it takes on tremendous momentum and requires very little energy to keep it moving. The breakthrough occurs when the weight begins to work for you and not against you. The significance of this metaphor comes from respondents at good-to-great companies. Not a single one reported that there was any one significant "push" that created this enormous force the company was exerting. What looked like an incredible transformation from the outside was in fact experienced as everyday life on the inside. A process of moving the flywheel might look like this…

- Take the time to understand your focus (Hedgehog Concept). Discuss, debate, and dialogue.
- Recruit the right people, put them in the right seat, and find a way to remove the wrong people
- Focus on disciplined people, disciplined thought, and disciplined action
- Keep the faith as momentum builds ever so slowly
- Act consistently on your focus (Hedgehog Concept) so that each aspect of the company contributes to energy invested in it
- Once the breakthrough occurs, continue to identify how much more there is required of you in order to *continue in greatness*.
- Remember to celebrate along the way.

In contrast, think of a different picture. You're driving down the freeway with one requirement. Every time you come to an exit you have to get off and take local roads to the next on-ramp where you can continue your journey…until you get off the next off-ramp. Getting from point A to point B becomes totally disrupted. This is one picture of what Collins calls a doom loop. Companies in the doom loop take all kinds of detours thinking that the detours will magically get them to their destination. They don't realize the negative effect on their momentum, and as a result what looks like good strategy becomes extremely expensive diversions. The doom loop can be seen as having four contributing factors…

- Reaction without understanding
- New direction, program, leader, event, fad, or acquisition
- No build-up or accumulation of momentum (in fact just the opposite, a slow down of momentum)
- Disappointing results leading back to reaction without understanding

By focusing on people, thinking, and action in a way that facilitates momentum rather than disruption, momentum is initiated and sustained. The challenge is not in being perfect, but in using every situation to give the flywheel another push toward spinning into greatness.

Conclusion

How might you summarize this highly influential book? The idea of *understanding that drives action* is one way to put it. Good to great companies worked to understand at a deep level what made their company work, and by continually looking for new answers to the question, they developed the momentum to breakthrough into greatness…

- Their leaders understood success was not about themselves as a person, but about the success of their company.
- They understood that the right people in the right seats on the bus make all the difference.
- They understood the importance of finding the truth and acting on it in the form of facing the brutal facts of reality, while maintaining unwavering faith that they would succeed.
- They understood that tapping passion, extraordinary competence, and the key economic driver builds progressive momentum.
- They understood the discipline of staying focused on the essentials and stopping the distractions.
- They understood technology is best used to accelerate momentum, not to create it.
- Finally, they understood that greatness comes from sustained commitment to disciplined people, disciplined thinking, and disciplined action that creates breakthrough momentum.

Such understanding requires the integrated whole of the principles illustrated in this book. The challenge to all is to embody these principles, and by so doing, to live them out in everyday actions and interactions. By so doing, greatness, or even further greatness, awaits.