Good to Great

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

By Jim Collins

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Introduction

Good is the enemy of great. Few people live what would be considered great lives, largely because it’s easy to settle for a good life. The vast majority of companies never become great, precisely because they become quite good — and that’s their main problem.

Can a good company become great? Or is the disease of “just being good” incurable? A five-year research project shows that the transition from good to great does indeed happen, and there are certain underlying variables that make it happen.

The research identified companies that made the leap from good results (cumulative stock returns at or below the general U.S. stock market for 15 years) to great results (cumulative stock returns three times greater than the stock market for at least 15 years). Those companies were compared to a carefully selected control group of comparison companies that failed to make the leap, or if they did, failed to sustain it. By comparing the good-to-great companies to the comparison companies, an understanding — often quite unexpected — emerged of the essential and distinguishing factors at work.

The good-to-great companies that made the final cut in the study attained extraordinary results, averaging cumulative stock returns 6.9 times the general market in the 15 years following their transition points. To put that in perspective, General Electric, which many consider the best-led company at the end of the 20th century, outperformed the market by 2.8 times over the 15 years from 1985 to 2000.

Those are remarkable numbers, especially considering they were achieved by companies that had previously been so unremarkable.

The Companies

The companies in the study were:

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<th>GOOD-TO-GREAT COMPANIES</th>
<th>COMPARISON COMPANIES</th>
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<td>Abbott</td>
<td>Upjohn</td>
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<td>Circuit City</td>
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<td>Fannie Mae</td>
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<td>Gillette</td>
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<td>Kimberly-Clark</td>
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As well, the good-to-great companies were compared to six firms that made a short-term shift from good to great but couldn’t maintain the trajectory: Burroughs, Chrysler, Harris, Hasbro, Rubbermaid and Teledyne.

The Dog That Didn’t Bark

As in the Sherlock Holmes story that revolved around the curious incident of the dog that didn’t
bark in the night, some of the most useful clues to the inner workings of the leap from good to great came from surprising examples of what the researchers did not see:

• Larger-than-life leaders who ride in from the outside are negatively correlated with taking a company from good to great. Ten of 11 good-to-great CEOs came from inside the company, whereas the comparison companies tried outside CEOs six times more often.

• No systematic pattern was found linking specific forms of executive compensation to the process of going from good to great. The idea that the structure of executive compensation is a key driver in corporate performance is simply not supported by this survey.

• Strategy per se didn’t separate the good-to-great companies from the comparison companies. Both groups had well-defined strategies, and there’s no evidence that the good-to-great companies spent more time on long-range strategic planning than the comparison companies.

• The good-to-great companies didn’t focus principally on what to do to become great. They focused equally on what not to do and what to stop doing.

• Technology and technology-driven change has virtually nothing to do with igniting a transformation from good to great. Technology can accelerate a transformation but cannot cause it.

• Mergers and acquisitions play virtually no role in igniting a transformation from good to great. Two mediocrities joined together never make one great company.

• The good-to-great companies paid scant attention to managing change, motivating people or creating alignment. Under the right conditions, the problems of commitment, alignment, motivation and change largely melt away.

• The good-to-great companies had no names, tag lines, launch events or programs to signal their transformations. Indeed, some reported being unaware of the transformation at the time. It only became clear later that they’d produced a truly revolutionary leap in results but that didn’t result from a revolutionary process.

• The good-to-great companies were not, by and large, in great industries. Some were in terrible industries. Greatness isn’t a function of circumstance but largely a matter of conscious choice.

Level 5 Leadership

Compared to the high-profile leaders with big personalities who make the headlines and become celebrities, good-to-great leaders tend to be self-effacing, reserved and even shy. They’re a paradoxical blend of personal humility and professional will — more like Lincoln or Socrates than Patton or Caesar.

Leadership, this study suggests, has five levels. The first is a highly capable individual who makes productive contributions through talent, knowledge, skills and good work habits. Level 2 is a contributing team member who helps the group reach its objectives. Level 3 is a competent manager who organizes people and resources towards the effective and efficient pursuit of predetermined objectives.

Level 4 is an effective leader who catalyzes commitment to, and vigorous pursuit of, a clear and compelling vision, stimulating higher performance standards. Most of the effective leaders we read and hear about are at Level 4.

But the study suggests some individuals rise to Level 5, where they build enduring greatness through their blend of humility and will. Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. It’s not that Level 5 leaders have no ego or self-interest. Indeed, they’re incredibly ambitious — but their ambition is first and foremost for the institution, not themselves.

Level 5 leaders were found at the helm of every good-to-great company during the transition era — self-effacing individuals who displayed a fierce resolve to do whatever had to be done to make the company great. On the other hand, the absence of Level 5 leadership showed up as a consistent pattern in the comparison companies.

First Who … Then What

The researchers expected that the good-to-great leaders would begin by setting a new vision and strategy. Instead, they found the leaders first concentrated on getting the right people on the bus for their trip, the wrong people off the bus, and the right people in the right seats — then they figured out where to drive it.

Everyone has heard the old adage, “People are your most important asset.” This study redefines that to, “The right people are your most important asset.”
Confront the Brutal Facts
Yet Never Lose Faith

Admiral Jim Stockdale, the highest-ranking U.S. military officer in the “Hanoi Hilton” prisoner-of-war camp, who was tortured over 20 times in his eight-year imprisonment, brought away one crucial lesson that set him apart from those who didn’t survive: “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 brutal facts of your current reality, whatever they may be.”

Each of the good-to-great companies adhered to that Stockdale Paradox, stoically accepting the brutal facts of its reality while maintaining an unwavering faith that it would prevail as a great company.

The Hedgehog Complex

Foxes pursue many ends at the same time and see the world in all its complexities. Hedgehogs, on the other hand, simplify a complex world into a single organizing idea, principle or concept that guides everything.

The good-to-great companies in the research were, to one degree or other, hedgehogs, developing a simple, crystalline concept that guided all their efforts — a Hedgehog Concept. The comparison companies tended to be foxes, scattered and diffused.

A Hedgehog Concept flows from a deep understanding of:

• What you can be the best in the world at (and, equally important, what you cannot be the best in the world at). This goes well beyond the question of your core competency — just because you possess a core competency doesn’t necessarily mean you can be the best in the world at it.

• What drives your economic engine. All the good-to-great companies attained a piercing insight into the most effective ways to generate sustained and robust cash flow and profitability. In particular, they determined the one single denominator — profit per x — that had the greatest impact on their economies.

• What you’re deeply passionate about. The good-to-great companies focused on the activities that ignited their passions.

Other Factors

The good-to-great companies combined a culture of discipline — disciplined people, disciplined thought and disciplined action — with an ethic of entrepreneurship. They never used technology as the primary means to create a transformation but they carefully selected some technologies to accelerate momentum that had already been created.

Those who launch revolutions, dramatic change programs and wrenching restructurings will almost certainly fail to make the leap from good to great. No matter how dramatic the end result, the good-to-great transformations never happened in one fell swoop. There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembles relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough and beyond.

ABOUT THE AUTHOR: Jim Collins is co-author of the bestseller Built to Last, and a former faculty member at the Stanford University Graduate School of Business. He now operates a management research laboratory in Boulder, Colorado.

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