Good to Great Summary

By Jim Collins

How does a good, or perhaps even a mediocre or underperforming company, achieve enduring greatness? This question has played on the mind of author and business consultant Jim Collins. Collins' previous book, *Built to Last*, explores how great companies triumph over time, and achieve long-term sustainable success. He was inspired to write *Good to Great* when a business acquaintance pointed out that his previous book only examined how great companies stay great, but not how they *became* that way in the first place.

Good to Great is lauded as one of the best management books available. It's the product of a five-year research study identifying public companies that achieved sustainable success after years of mediocre performance. The factors that differentiated these companies from under-performing competitors were pinpointed to gain insight.

We'll briefly unpack the methodology behind Collins' research and explore what a "great" company looks like. We'll also explain how a bus, a hedgehog, and a flywheel prove to be useful analogies to clarify how companies make the leap to greatness. So, If you're tired of business books that state the obvious, or provide untested "strategies for success," then *Good to Great* is the perfect book for you. Collins dives into rigorous research-backed explanations that can help your business move from good-to-great, and better still, stay there.

Greatness Defined

Over the course of five years, Collins and his team systematically analyzed companies that attained greatness. They then compared these to other carefully selected companies facing almost identical circumstances, but that failed to achieve excellence over the same time period.

So what exactly is a good-to-great company? According to Collins, 'A great organization is one that makes a distinctive impact, and delivers superior performance over a *long period*.'

Collins and his team looked at 1,435 good companies, examined their performance over forty years, and found the eleven companies that became great, and *stayed* great. The good-to-great companies generated cumulative stock returns that beat the general market by an average of seven times in fifteen years. To put this in perspective, that's better than twice the results delivered by a composite index of the world's "greatest companies," such as Coca-Cola, Intel, and General Electric.

So what does it take to develop enduring greatness? Well, as with most things, it takes discipline.

Good-to-Great Companies Demonstrate Discipline

Perhaps you think you're one acquisition away from greatness. Unfortunately, acquisitions don't provide a stimulus for greatness – *two* mediocre companies don't make *one* great company. Or maybe you think that if you just develop a breakthrough technology, you'll fast-track your company to join the likes of Microsoft or SpaceX. Technology is important, but it only comes into play after the right changes have already been made. So what does it take to drive change for the better? It takes discipline. Discipline comes in the form of disciplined leaders, disciplined thought, and disciplined action.

Good-to-great companies are disciplined when it comes to *who* they hire to lead their company. They're also disciplined in thought and in action.

Good-to-Great Companies Think: "First Who... Then What"

Before thinking strategy, good-to-great companies focus on hiring the right people. They carefully decide and weigh up, 'who gets on the bus, who gets off the bus, and where people sit on the bus.'

When Collins and his team looked at comparison companies who didn't go from good-to-great, they called that management structure a 'genius with a thousand helpers.' Often companies bring people onto the team who aren't a great fit.

However, the good-to-great companies have a "hire slow, fire fast" mentality. They spend a great deal of time finding the right people whose values align with those of the company. These are the type of people who also demonstrate leadership potential. In other words, they hire people with an entrepreneurial spirit; people who don't need to be managed or motivated. Collins gives the example of Dick Cooley. When he took over the helm as CEO of Wells Fargo, before deciding on a clear vision, he focused on hiring the best and brightest people. Together they formulated a vision that transformed the company from good-to-great.

Warren Buffett stated that Wells Fargo's executives were 'the best management team in the business.'

If you happen to be employed by a good-to-great company, your first couple of months are crucial. During this time, the managerial team asks two critical questions: 'Would we hire this person again?' and 'If this person told us they were leaving to pursue a new opportunity, would we be disappointed or relieved?' Should you happen to get the stamp of approval, the company will likely be extremely loyal to you. Six of the eleven good-to-great companies didn't make a single lay-off in over 30 years, and only four others reported one or two layoffs.

CEO's of good-to-great companies also focus on moving the right people to the right seats. One CEO reshuffled 38 of his top 50 employees; another described this process as, 'putting square pegs in square holes and round pegs in round holes.' Leaders of these companies also aren't afraid to get the wrong people off the bus. For example, a CEO of a family pharmaceutical company had the courage to kick his own family members off the board, because in his mind, this was the necessary action step to make the company great again.

Speaking of CEOs, it's crucial to have the *right* leaders in the driver's seat.

Good-to-Great Companies Have Level 5 Leaders

Let's turn to a company employee hierarchy, which we can break into five levels.

Employees typically start as skilled workers, become reliable teammates, and then bump up to level three and become a manager. Then, at some point, they reach level four, where they become a visionary. Visionaries have a compelling message that people within the company buy into, which drives high performing teams. This is where most leaders stay. However, some leaders move to level five, and this is where you want to be to achieve greatness. Level five leaders are a combination of all these competencies. The factors that distinguish level five leaders from the rest, are their traits of extreme humility and resolve.

Despite their success, level five leaders are far from being ego-driven. They're modest and understated. When Collins interviewed level five leaders, they would say things like, 'I don't think I can take much credit for the company's success.' Or, 'There are plenty of people in this company who can do my job better than I do.'

However it's important to note that humility shouldn't be mistaken for weakness. Collins reports that 'Every level five has the stoic determination to do whatever needs to be done, to make the company great.' Do you remember the previous example of the CEO who kicked his family members off the board? Well, this is indicative of level 5 leaders who take the required action steps to make the company great again. They don't care about popularity. They care about doing what's best for the company.

So the behaviors of level 5 leadership are quite paradoxical. These leaders are humble, and at the same time, highly ambitious and driven to make the organization excel. They tend to be modest about their personal achievements, but are fanatically determined to produce exceptional results. This obsession is for sustainable results, and they tend to be drivers of consistent success. Furthermore, they build successors by developing and recognizing up-and-coming managers who may even be more successful than they are. They're quick to share praise, and even quicker to take the blame when things go wrong. A level 5 leader, as a result, inspires loyalty and commitment from their team members.

Next, good-to-great companies are disciplined in thought.

Good-to-Great Companies Have a "Hedgehog Mentality"

The hedgehog concept is a strategic thinking model that reflects an understanding of three intersecting circles. These circles are, what work you believe you can be the best in the world at, the things you're deeply passionate about, and what best drives your economic and resource engine.

An ancient Greek parable states, 'The fox knows many things, but the hedgehog knows one big thing.' In the parable, the fox uses many strategies to try to catch the hedgehog, however the hedgehog notices the fox immediately, and curls up to display its sharp spikes. The fox tries many tactics, but the hedgehog relies on one tried and tested strategy. This strategy is simple, and it almost always proves successful. Collins explains that from a business standpoint, 'Hedgehogs are the big thinkers who are more decisive, while the foxes are more accepting of nuance, more open to using different approaches with different problems.'

Good-to-great companies have the hedgehog mentality. They find their own simple hedgehog concept by asking themselves three key questions as represented by three circles. The key questions are, 'What can we be the best at?' 'What's the fundamental economic indicator we should concentrate on?' And, 'What are we passionate about?'

When it comes to the first circle, every company would like to be the best at something. However, very few companies understand what this means with any sort of piercing insight or clarity. Many companies aren't able to identify their potential, and what they could be the best at, and, just as important, what they *cannot* be the best at. This distinction is crucial. If we look at Wells Fargo again, they were a bank that outperformed the market by a multiple of four from 1983 to 1998. They did this by accepting the truth that they couldn't beat their rivals at CitiGroup. At the time, CitiGroup was a leading global investment bank and financial services corporation. So, instead of competing, Wells Fargo shifted their focus and attention to what they believed they could be the best at. Through their analysis they figured out that running a bank like a business, focusing solely on the West of the United States, they could create something very solid. This single-minded and simple strategy helped Wells Fargo to become one of the world's leading banks.

The second circle represents a company's economic engine. If we look at this more specifically, it encompasses how a company can generate more profit than its competitors. Again, using the example, we can see how this works. Wells Fargo discovered that they could restructure their banks to have more ATMs, and fewer employees per branch in order to generate more profit.

Finally let's look at the third circle. All the good-to-great companies that were analyzed, weren't driven solely by money; they were deeply passionate about their business. On the other hand, comparison companies tended to develop products and services with the sole purpose of making money. Good-to-great companies invest in products and services they care about, which fit in with their mission statement.

For example, the difference between the cigarette company Philip Morris, and other tobacco companies, was that executives at Philip Morris generally believed, despite the health risks, that life was better with cigarettes.

Collins and his team found that good-to-great companies spend years developing a deep understanding of their vision for success. On average, these good-to-greats spend four years of iteration and reflection on the intersecting circles. Eventually they discover their own simple hedgehog mentality, and thereafter every decision in the company falls into this ethos, resulting in success.

However, as we've all learned, success doesn't happen overnight. A culture of self-discipline is needed to adhere to the simple hedgehog concept. Success stems from steady, incremental pushes in the right direction.

Good-to-Great Companies Adopt the Flywheel Approach

Collins found that executives of good-to-great companies couldn't pinpoint a moment in time that exemplified their transition to "greatness." This may seem strange, but there's no one defining action in building greatness. There's no one program, no single killer innovation, nor a lucky break that can be identified as "the magic moment." Instead, the path to success comes from many tiny pushes in the right direction. Collins likens it to relentlessly pushing a heavy flywheel, turn upon turn, slowly building momentum in the right direction.

Comparison companies however, got stuck in what Collins and his team refer to as the "Doom Loop." Instead of a slow deliberate process of figuring out what needed to be done, and then executing this plan, the comparison companies frequently launched a new program. These new programs were often launched at a significant cost and with lots of unnecessary fanfare, only to see the plans fail to produce sustained results. Comparison companies tended to push the flywheel in one direction, then stop, change course, turn it in a new direction, then stop, change course and turn it in yet another direction. This lack of consistency, and the constant moving back and forth, led comparison companies to fail to build sustained momentum. In short, they got stuck in the dreaded "Doom Loop."

In Conclusion

There's a lot of mythology around greatness, and there are many common-sense views about good fortune and good luck. *Good to Great* shows that there's a methodology to achieving success, and that greatness isn't as random as many of us believe. That's not to say that good fortune and luck aren't factors to success, but rather that there are numerous tools and strategies we can adopt to go from good to great.

Whether you're an executive, an entrepreneur, or anyone interested in what makes for great leadership, great corporate culture, and great strategic planning, then this book is a must-read. Good-to-great companies have crucial similarities. They get the right people on the bus, hire "level five" leaders, and adopt a "hedgehog concept" mentality by sticking to simple and straightforward strategies. Furthermore, by turning a metaphorical flywheel day in and day out, with unwavering faith, they take small, progressive steps to bring their vision to life. According to

Collins, 'Few people attain great lives, in large part because it is just so easy to settle for a good life.'

So, if good isn't good enough for you, how do you plan to transform your company from good-to-great? Well, *Good to Great* may just thrust greatness upon you.