

GOOD TO GREAT: Why Some Companies Make the Leap... And Others Don't

Jim Collins | 5-Year Research Study | 11
Companies from 1,435

CORE THESIS

- ▶ **"Good is the enemy of great."** Companies settle for good and never reach greatness.
- ▶ Greatness is not a function of circumstance — it is a conscious choice built through **Disciplined People** → **Disciplined Thought** → **Disciplined Action**.
- ▶ Good-to-great companies averaged **6.9x the general market** over 15 years post-transition. \$1 invested in 1965 became \$471 by 2000.
- ▶ No miracle moments. The process is **buildup** → **breakthrough** through consistent, compounding effort.

LEVEL 5 LEADERSHIP

- ▶ A paradoxical blend of **personal humility + fierce professional will** — ambitious for the institution, not themselves.
- ▶ **Window & Mirror:** Credit others for success (look out the window); take personal responsibility for failures (look in the mirror).
- ▶ 10/11 good-to-great CEOs came from inside the company. Celebrity outsider leaders are negatively correlated with greatness.
- ▶ Set up successors for even greater success. Ego-driven leaders often set successors up for failure (e.g., Rubbermaid's Stanley Gault).

FIRST WHO, THEN WHAT

- ▶ Get the **right people on the bus** (and wrong people off) before deciding where to drive it.
- ▶ "People are not your most important asset. The **right** people are." Character > credentials.
- ▶ **3 Disciplines:** (1) When in doubt, don't hire — keep looking. (2) When you know you need a change, act. (3) Best people on best opportunities, not biggest problems.
- ▶ Be **rigorous, not ruthless**. 6/11 companies had zero layoffs during the study period.

CONFRONT THE BRUTAL FACTS (STOCKDALE PARADOX)

- ▶ **Stockdale Paradox:** Maintain unwavering faith you WILL prevail, AND confront the most brutal facts of current reality.
- ▶ Create a climate where truth is heard: lead with questions, engage in dialogue not coercion, conduct autopsies without blame, build red flag mechanisms.
- ▶ Charisma can be a **liability** — when people filter reality to please the leader, the organization suffers.
- ▶ **Kroger** confronted the death of traditional grocery and rebuilt 100% into superstores. **A&P** closed its experimental store because it didn't like the answers.

THE HEDGEHOG CONCEPT (THREE CIRCLES)

- ▶ Good-to-great companies are hedgehogs — they reduce complexity to **one simple, crystalline concept** at the intersection of three circles:
- ▶ **Circle 1:** What you can be the *best in the world* at (not a goal — an understanding). Just because it's your core business doesn't mean you can be the best.
- ▶ **Circle 2:** What drives your *economic engine* — discover the single denominator (profit per x) with the greatest impact. E.g., Walgreens: profit per customer visit. Wells Fargo: profit per employee.
- ▶ **Circle 3:** What you are *deeply passionate* about. You can't manufacture passion — discover what ignites it. "We should only do those things we can get passionate about."
- ▶ It took an average of **4 years** to clarify. Use the Council process: 5-12 right people, rigorous dialogue, iterative refinement. Growth is not a Hedgehog Concept — it is a result of having one.

CULTURE OF DISCIPLINE

- ▶ Disciplined people + disciplined thought + disciplined action = no need for hierarchy, bureaucracy, or excessive controls.
- ▶ Build a **system, not a tyranny**. Give freedom and responsibility within a framework. Manage the system, not the people.
- ▶ "Rinsing your cottage cheese" — fanatical consistency in small things that compound. Nucor: 4 layers, HQ staff of 25, no executive perks.
- ▶ Say NO to everything outside the three circles — even "once-in-a-lifetime" opportunities. Discipline to stay within the Hedgehog Concept is paramount.

TECHNOLOGY ACCELERATORS

- ▶ Technology is an **accelerator** of momentum, never the creator of it. No transformation began with pioneering technology.
- ▶ Key question: Does this technology fit within our Hedgehog Concept? If yes → become a pioneer. If no → ignore or match parity.
- ▶ 80% of good-to-great executives didn't mention technology as a top-5 factor — yet they all became technology pioneers once they understood its fit.
- ▶ Great companies respond to tech change with **thoughtfulness**; mediocre companies react with **fear**. "Crawl, walk, run" works even in rapid change.

THE FLYWHEEL VS. THE DOOM LOOP

- ▶ **Flywheel:** Push consistently in one direction. Each turn builds on prior effort. Momentum compounds until breakthrough — no single defining push.
- ▶ **Doom Loop:** Comparison companies lurched between strategies, chased fads, launched revolutions, made undisciplined acquisitions — never built sustained momentum.
- ▶ From the outside, transformations look like overnight success. From the inside, they feel like an organic, cumulative process — like an egg developing into a chicken.
- ▶ **Key examples:** Circuit City's 9-year buildup before media noticed. Nucor: 10 years of quiet progress before any coverage. Walgreens: 40 years average, then 25 years of 15x market returns.

