

The following is a highlighted summary of the book, Good to Great, published by Harper Business. The statements below are key points of the book as determined by James Altfeld and have been made available at no charge to the user.

Good to Great

By

Jim Collins

Good is the enemy of great.

We don't have great schools, principally because we have good schools.

...people attain great lives...

The vast majority of companies never become great, precisely because the vast majority become quite good—and that is their main problem.

You can accomplish anything in life, provided that you do not mind who gets the credit.
Harry s. Truman

(Pryamid pg. 20)

“I never stopped trying to become qualified for the job.”

Summary: The Two Sides of Level 5 Leadership

Professional Will

Creates superb results, a clear
Catalyst in the transition from good
to great.

Personal Humility

Demonstrates a compelling modesty,
shunning public adulation; never
boastful.

Demonstrates an unwavering
Resolve to do whatever must be
Done to produce the best long-term
Results, no matter how difficult.

Acts with quiet, calm
determination; relies principally on
inspired standards, not inspiring
Charisma, to motivate.

Sets the standard of building an
Enduring great company; will
Settle for nothing less.

Channels ambition into the company,
not the self; sets up successors for
Even greater success in the next
Generation.

Looks in the mirror, not out
The window, to apportion
Responsibility for poor results,
Never blaming other people,
External factors, or bad luck

Looks out the window, not in the
mirror, to apportion credit for the
success of the company—to other
people, external factors, and good
luck.

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, from the Electric Kool-aid Acid Test by Tom Wolfe.

The good-to-great leaders understood three simple truths. First, if you begin with “who,” rather than “what,” you can more easily adapt to a changing world. If people join the bus primarily because of where it is going, what happens if you get ten miles down the road and you need to change direction? You've got a problem. But if people are on the bus because of who else is on the bus, then it's much easier to change direction: “hey, I got on this bus because of who else is on it; if we need to change direction to be more successful, fine with me.” Second, if you have the right people on the bus, the problem of how to motivate and manage people largely goes away. The right people don't need to be tightly managed or fired up; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great. Third, if you have the wrong people, it doesn't matter whether you discover the right direction; you still won't have a great company. Great vision without great people is irrelevant.

**Level 5 +
Management Team**
(Good-to-Companies)

**A “Genius with a
Thousand Helpers”**
(Comparison Companies)

Level 5 Leader

Level 4 Leader

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First Who

First What

Get the right people on the bus
Build a superior executive team

Set a vision for where to drive
the bus. Develop a road map
For driving the bus.

—

Then What

Once you have the right people
In place, figure out the best path
To greatness.

Rigorous, Not Ruthless

...not ruthless cultures, they're rigorous cultures.

—

Then Who

Enlist a crew of highly capable
“helpers” to make the vision
Happen.

To be rigorous means consistently applying exacting standards at all times and at all levels, especially in upper management. To be rigorous, not ruthless, means that the best people need not worry about their positions and can concentrate fully on their work.

“the only way to deliver to the people who are achieving is to not burden them with the people who are not achieving.”

How to Be rigorous

We've extracted three practical disciplines from the research for being rigorous rather than ruthless.

Practical Discipline #1: When in doubt, don't hire—keep looking

No company can grow revenues consistently faster than its ability to get enough of the right people to implement that growth and still become a great company.

Those who build great companies understand that the ultimate throttle on growth for any great company is the ability to get and keep enough of the right people.

“Always Looking for Great People.”

...discipline in picking the right people.

According to Circuit City's Dan Rexinger, "We made the best home delivery drivers in the industry. We told them, 'You are the last contact the customer has with Circuit City. We are going to supply you with uniforms. We will require that you shave that you don't have B.O. You're going to be professional people.' The change in the way we handled customers when making a delivery was absolutely incredible. We would get thank-you notes back on how courteous the drivers were."

Practical Discipline #2: When you know you need to make a people change, act.

The moment you feel the need to tightly manage someone, you've made a hiring mistake. The best people don't need to be managed. Guided, taught, led—yes. But not tightly managed.

Letting the wrong people hang around is unfair to all the right people...

Worse, it can drive away the best people.

Waiting too long before acting is equally unfair to the people who need to get off the bus. For every minute you allow a person to continue holding a seat when you know that person will not make it in the end, you're stealing a portion of his life, time that he could spend finding a better place where he could flourish. Indeed, if we're honest with ourselves, the reason we wait too long often has less to do with concern for that person and more to do with our own convenience. He's doing an okay job and it would be a huge hassle to replace him.

But how do you know when you know? Two key questions can help. First, if it were a hiring decision (rather than a "should this person get off the bus?" decision), would you hire the person again? Second, if the person came to tell you that he or she is leaving to pursue an exciting new opportunity, would you feel terribly disappointed or secretly relieved?

Practical Discipline #3: Put your best people on your biggest opportunities, not your biggest problems.

When you decide to sell off your problems, don't sell off your best people.

The company might be getting rid of the paper business, but it would keep its best people.

The old adage “People are your most important asset” is wrong. People are not your most important asset. The right people are.

Whether someone is the “right person” has more to do with character traits and innate capabilities than with specific knowledge, background, or skills.

Facts are Better Than Dreams

The good-to-great companies displayed two distinctive forms of disciplined thought. The first, and the topic of this chapter, is that they infused the entire process with the brutal facts of reality. (The second, which is that they developed a simple, yet deeply insightful, frame of reference for all decisions.) With an honest and diligent effort to determine the truth of the situation...

You absolutely cannot make a series of good decisions without first confronting the brutal facts.

There is nothing wrong with pursuing a vision for greatness. After all, the good-to-great companies continually refined the path to greatness with the brutal facts of reality.

“When you turn over rocks and look at all the squiggly things underneath, you can either put the rock down, or you can say, ‘My job is to turn over rocks and look at the squiggly things,’ even if what you see can scare the hell out of you.” Pitney Bowes executive Fred Purdue.

Churchill said: “We are resolved to destroy Hitler and every vestige of the Nazi regime. From this, nothing will turn us. Nothing! We will never parley. We will never negotiate with Hitler or any of his gang. We shall fight him by land. We shall fight him by sea. We shall fight him in the air. Until, with god’s help, we have rid the earth of his shadow.

Yes, leadership is about vision. But leadership is equally about creating a climate where the truth is heard and the brutal facts confronted.

1. Lead with questions, not answers

...used questions for one and only one reason: to gain understanding. They didn’t use questions as a form of manipulation.

2. Engage in dialogue and debate, not coercion.

3. Conduct autopsies, without blame.
4. Build “red flag” mechanisms.

The key, then, lies not in better information, but in turning information into information that cannot be ignored.

I issued to each MBA student an 8.5” x 11” bright red sheet of paper, with the following instructions: “This is your red flag for the quarter. If you raise your hand with your red flag, the classroom will stop for you. There are no restrictions on when and how to use your red flag; the decision rests entirely in your hands. You can use it to voice an observation, share a personal experience, present an analysis, disagree with the professor, challenge a CEO guest, respond to a fellow student, ask a questions, make a suggestion, or whatever. There will be no penalty whatsoever for any use of a red flag. Your red flag can be used only once during the quarter. Your red flag is nontransferable; you cannot give or sell it to another student.”

Unwavering Faith Amid the Brutal Facts

There is a sense of exhilaration that comes in facing head-on the hard truths and saying, “We will never give up. We will never capitulate. It might take a long time, but we will find a way to prevail.”

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 might be.”

To this day, I carry a mental image of Stockdale admonishing the optimists: “We’re not getting out by Christmas; deal with it!”

What separates people, Stockdale taught me, is not the presence or absence of difficulty, but how they deal with the inevitable difficulties of life.

The Stockdale Paradox

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.

Kroger was like Stockdale, and A&P was like the optimists who always thought they'd be out by Christmas."

It didn't matter how bleak the situation or how stultifying their mediocrity, they all maintained unwavering faith that they would not just survive, but prevail as a great company. And yet, at the same time, they became relentlessly disciplined at confronting the most brutal facts of their current reality.

Confront the brutal Facts (Yet Never Lose Faith)

Key Points

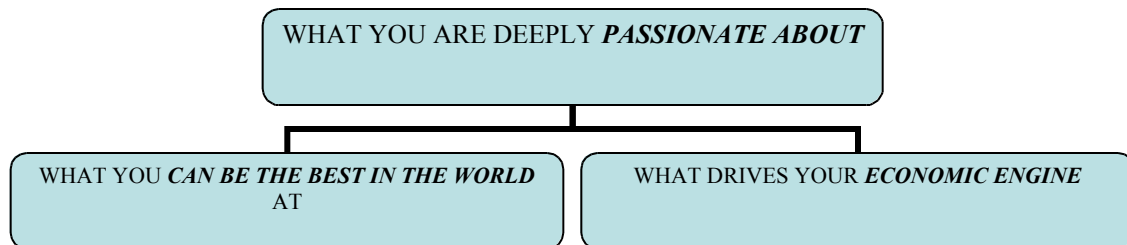
- All good-to-great companies began the process of finding a path to greatness by confronting the brutal facts of their current reality.
- When you start with an honest and diligent effort to determine the truth of your situation, the right decisions often become self-evident. It is impossible to make good decisions without infusing the entire process with an honest confrontation of the brutal facts.
- A primary task in taking company from good to great is to create a culture wherein people have a tremendous opportunity to be heard and, ultimately, for the truth to be heard.
- Creating a climate where the truth is heard involves four basic practices:
 1. Lead with questions, not answers.
 2. Engage in dialogue and debate, not coercion.
 3. Conduct autopsies, without blame.
 4. Build red flag mechanisms that turn information into information that cannot be ignored.
- The good-to-great companies faced just as much adversity as the comparison companies, but responded to that adversity differently. They hit the realities of their situation head-on. As a result, they emerged from adversity even stronger.
- A key psychology for leading from good to great is the Stockdale Paradox: Retain absolute faith that you can and will prevail in the end, regardless of difficulties, *AND at the same time* confront the most brutal facts of your current reality, whatever they might be.
- Charisma can be as much a liability as an asset, as the strength of your leadership personality can deter people from bringing you the brutal facts.
- Leadership does not begin just with vision. It begins with getting people to confront the brutal facts and to act on the implications.
- Spending time and energy trying to "motivate" people is a waste of effort. The real question is not, "How do we motivate our people?" If you have the right people, they will be self-motivated. The key is to not *de*-motivate them.

One of the primary ways to de-motivate people is to ignore the brutal facts of reality.

The Three Circles

A 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 in the world at (and, equally important, what you cannot be the best in the world at).
2. What drives your economic engine. How to most effectively generate sustained and robust cash flow and profitability.
3. What you are deeply passionate about. The Idea here is not to stimulate passion but to discover what makes you passionate.



Understanding What You Can (and cannot) Be Best At

What can we potentially do better than any other company, and, equally important, what can *we not* do better than any other company? And if we can't be the best at it, then why are we doing it all?

Just because you've been doing it for years or perhaps even decades-does not necessarily mean that you can be the best in the world at it. *And if you cannot be the best in the world at your core business, then your core business cannot form the basis of your hedgehog Concept.*

ECONOMIC DENOMINATOR

This table shows the economic denominator insight attained by the good-to-great companies during the pivotal transition years.	
Abbot: <i>per employee</i>	Key insight: Shift from profit per product line to profit per employee fit with the idea of contributing to cost-effective health care.
Circuit City: <i>per geographic region</i>	Key insight: Shift from profit per single store to profit per region reflected local economies of scale. While per-store performance remained vital, regional grouping was a key insight that drove Circuit City's economics beyond Silo's.

Fannie Mae: <i>per mortgage risk level</i>	Key insight: Shift from profit per division to profit per customer reflected the economic power of repeatable purchases (e.g., razor cartridges) times high profit per purchase (e.g., Mach 3, not disposable razors).
Gillette: <i>per customer</i>	Key insight: Shift from profit per fixed asset (the mills) to profit per consumer brand; would be less cyclical and more profitable in good times and bad.
Kimberly-Clark: <i>per consumer brand</i>	Key insight: Shift from profit per fixed asset (the mills) to profit per consumer brand; would be less cyclical and more profitable in good times and bad.
Kroger: <i>per local population</i> to profit per local population reflected the insight that local market share drove grocery economics. If you can't attain number one or number two in local share, you should not play.	Key insight: Shift from profit per store
Nucor: <i>per ton of finished steel</i>	Key insight: Shift from profit per division to profit per ton of finished steel reflected Nucor's unique blend of high-productivity culture mixed with mini-mill technology, rather than just focusing on volume.
Philip Morris: <i>per global brand category</i>	Key insight: Shift from profit per sales region to profit per global brand category reflected the understanding that the real key to greatness lay in brands that could have global power, like Coke.
Pitney Bowes: <i>per customer</i>	Key insight: Shift from profit per postage meter to profit per customer reflected the idea that Pitney Bowes could use its postage meters as a jumping-off point to bring a range of sophisticated products into the back offices of customers.
Walgreens: <i>per customer visit</i>	Key insight: Shift from profit per store to profit per customer visit reflected a symbiotic relationship between convenient (and expensive) store sites and sustainable economics.
Wells Fargo: <i>per employee</i>	Key insight: Shift from profit per loan to profit per employee reflected

understanding of the brutal fact of deregulation: Banking is commodity.

The purpose of bureaucracy is to compensate for incompetence and lack of discipline. Avoid bureaucracy and hierarchy and instead create a culture of discipline.

One particularly fascinating example of the disciplinarian syndrome was Chrysler under Lee Iacocca, whom *Business Week* described simply as, “The Man. The Dictator. Lee” Iacocca became president of Chrysler in 1979 and imposed his towering personality to discipline the organization into shape.

“I felt like an Army surgeon.... We had to do radical surgery, saving what we could.” In dealing with the unions, he said, “If you don’t help me out, I’m going to blow your brains out. I’ll declare bankruptcy in the morning, and you’ll all be out of work.”

Fanatical Adherence to the Hedgehog Concept

The good-to-great companies at their best followed a simple mantra: We will not launch unrelated businesses. 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

Do you have a “to do” list? Do you also have a “*stop* doing” list?

The real question is, once you know the right thing, do you have the discipline to *do* the right thing and, equally important, to *stop doing* the wrong things?

A Culture of Discipline (Key Points)

- Sustained great results depend upon building a culture full of self-disciplined people who take disciplined action, fanatically consistent with the three circles.
- Bureaucratic cultures arise to compensate for incompetence and lack of discipline, which arise from having the wrong people on the bus in the first place. If you get the right people on the bus, and the wrong people off, you don’t need stultifying bureaucracy.
- A culture of discipline involves a duality. On the one hand, it requires people who adhere to a consistent system; yet, on the other hand, it gives people freedom and responsibility within the framework of that system.
- A culture of discipline is not just about action. It is about getting disciplined *people* who engage in disciplined *thought* and who *then* take disciplined action.

- The good-to-great companies appear boring and pedestrian looking in from the outside, but upon closer inspection, they're full of people who display extreme diligence and a stunning intensity (they "rinse their cottage cheese").
- Do not confuse a culture of discipline with a tyrant who disciplines—they are very different concepts, one highly functional, the other highly dysfunctional. Savior CEOs who personally discipline through sheer force of personality usually fail to produce sustained results.
- The single most important form of discipline for sustained results is fanatical adherence to the Hedgehog Concept and the willingness to shun opportunities that fall outside the three circles.

Unexpected Findings

- The more an organization has the discipline to stay within its three circles, with almost religious consistency, the *more* it will have opportunities for growth.
- The fact that something is a "once-in-a-lifetime opportunity" is irrelevant, unless it fits within the three circles. A great company will have *many* once-in-a-lifetime opportunities.
- The purpose of budgeting in a good-to-great company is not to decide how much each activity gets, but to decide which arenas best fit with the Hedgehog Concept and should be *fully* funded and which should not be funded at all.
- "Stop doing" lists are more important than "to do" lists.

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?

When used right, technology becomes an *accelerator* of momentum, not a creator of it. 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.

If a technology doesn't fit squarely within their three circles, they ignore all the hype and fear and just go about their business with a remarkable degree of equanimity.

Mediocrity results first and foremost from management failure, not technological failure.

Good Bhags, Bad Bhags, and Other Conceptual Links

1. *Clock Building, Not Time Telling.* Build an organization that can endure and adapt through multiple generations of leaders and multiple product life cycles; the exact opposite of being built around a single great idea.
2. Instead of choosing A *OR* B, figure out how to have A *AND* B.

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