

Why some companies make the leap and others don't

GOOD TO GREAT

Some insights by Jim Collins

Good to Great Leaders

First who ----- then what

- The good-to-great leaders began the transformation by first getting the right people on the bus (and the wrong people off the bus) and then figured out where to drive it.
- The key point of this chapter is *not* just the idea of getting the right people on the team. The key point is that “who” questions come before “what” decisions – before vision, before strategy, before organisation structure, before tactics. *First who, then what* – as a rigorous discipline, consistently applied.
- The comparison companies frequently followed the “genius with a thousand helpers” model – a genius leader who sets a vision and then enlists a crew of highly capable “helpers” to make the vision happen. This model fails when the genius departs.
- The good-to-great leaders were rigorous, not ruthless, in people decisions. They did not rely on layoffs and restructuring as a primary strategy for improving performance. The comparison companies used layoffs to a much greater extent.
- We uncovered three practical disciplines for being rigorous in people decisions:
 1. When in doubt, don't hire – keep looking. (*Corollary*: A company should limit its growth based on its ability to attract enough of the right people.)
 2. When you know you need to make a people change, act. (*Corollary*: First be sure you don't simply have someone in the wrong seat.)
 3. Put your best people on your biggest opportunities, not your biggest problems. (*Corollary*: If you sell off your problems, don't sell off your best people.)
- Good-to-great management teams consist of people who debate vigorously in search of the best answers, yet who unify behind decisions, regardless of parochial interests.
- We found no systematic pattern linking executive compensation to the shift from good to great. The purpose of compensation is not to “motivate” the right behaviours from the wrong people, but to get and keep the right people in the first place.

- 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.

Good to Great Companies

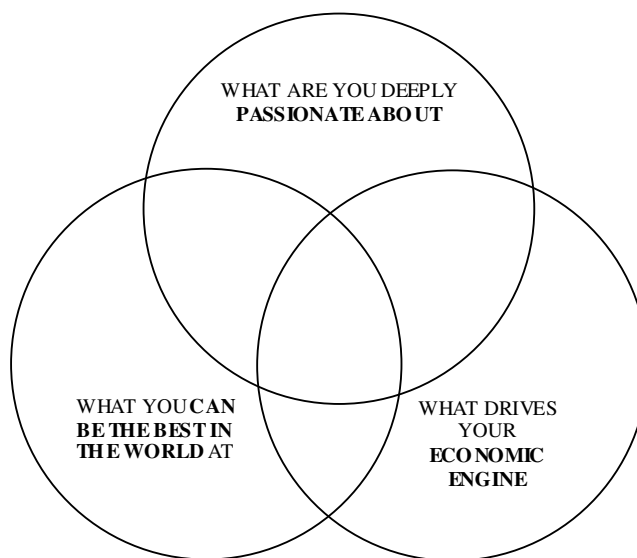
1. Confront the brutal facts (yet never lose faith).

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 a 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.
- We found no evidence that the good-to-great companies had more or better information than the comparison companies. None. Both sets of companies had virtually identical access to good information. The key, then, lies not in better information, but in turning 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 the 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.

2. Three Circles of the Hedgehog concept



The essential strategic difference between the good-to-great and comparison companies lay in two fundamental distinctions. First, the good-to-great companies founded their strategies on deep understanding along three key dimensions-what we came to call the three circles. Second, the good-to-great companies translated that understanding into a simple, crystalline concept that guided all their efforts-hence the term *Hedgehog Concept*.

More precisely, 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 at the world at* (and, equally important, what you *cannot* be the best in the world at). This discerning standard goes far beyond core competence. Just because you possess a core competence doesn't necessarily mean you can be the best in the world at it. Conversely, what you can be the best at might not even be something in which you are currently engaged. Without labouring the point, a Hedgehog Concept is not a goal to be the best, a strategy to be the best, an intention to be the best, a plan to be the best. It is an *understanding* of what you *can* be the best at. The distinction is absolutely crucial.

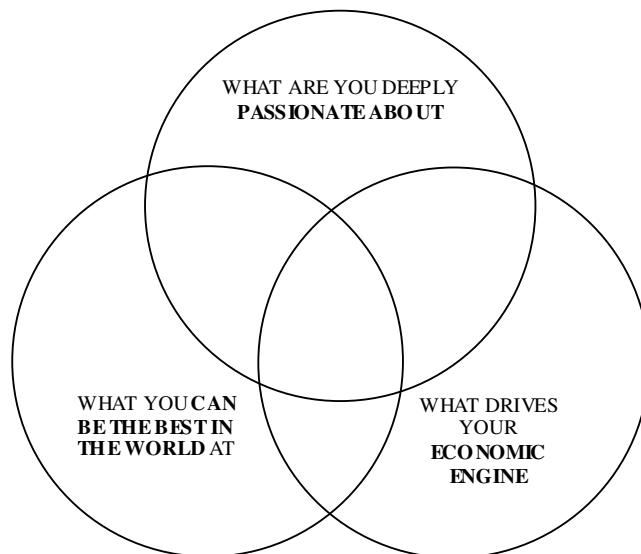
2. *What drives your economic engine.* All the good-to-great companies attained piercing insight into how to most effectively generate sustained and robust cash flow and profitability. In particular, they discovered the single denominator – profit per x – that had the greatest impact on their economics. (It would be cash flow per x in the social sector.)
3. *What you are deeply passionate about.* The good-to-great companies focused on those activities that ignited their passion. The idea here is not to stimulate passion but to discover what makes you passionate.

To quickly grasp the three circles, consider the following personal analogy. Suppose you were able to construct a work life that meets the following three tests. First, you are doing work for which you have a genetic or God-given talent, and perhaps you could become one of the best in the world in applying that talent. (“I feel that I was just born to be doing this.”) Second, you are well paid for what you do. (“I get paid to do this? Am I dreaming?”) Third, you are doing work you are passionate about and absolutely love to do, enjoying the actual process for its own sake. (“I look forward to getting up, and throwing myself into my daily work, and I really believe in what I’m doing.”) If you could drive toward the intersection of these three circles and translate that intersection into a simple, crystalline concept that guided your life choices, then you’d have a Hedgehog Concept for yourself.

Hedgehog Concept

Key Points

- To go from good-to-great requires a deep understanding of three intersecting circles translated into a simple, crystalline concept (the Hedgehog Concept):



THREE CIRCLES OF THE HEDGEHOG CONCEPT

- The key is to understand what your organisation *can* be the best in the world at, and equally important what it *cannot* be the best at – not what it “wants” to be the best at. The Hedgehog Concept is not a goal, strategy, or intention; it is an *understanding*.
- 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.
- The “best in the world” understanding is a much more severe standard than a core competence. You might have a competence but not necessarily have the capacity to be truly the best in the world at that competence. Conversely, there may be activities at which you have no current competence.
- To get insight into the drivers of your economic engine, search for the one denominator (profit per x or, in the social sector, cash flow per x) that has the single greatest impact (See Page 8).
- Good-to-great companies set their goals and strategies based on understanding; comparison companies set their goals and strategies based on bravado.
- Getting the Hedgehog Concept is an iterative process. The Council can be a useful device (See Page 9).

Unexpected Findings

1. The good-to-great companies are more like hedgehogs – simple, dowdy creatures that know “one big thing” and stick to it. The comparison companies are more like foxes – crafty, cunning creatures that know many things yet lack consistency.
2. It took four years on average for the good-to-great companies to get a Hedgehog Concept.
3. Strategy per se did not separate the good-to-great companies from the comparison companies. Both sets had strategies, and there is no evidence that the good-to-great companies spent more time on strategic planning than the comparison companies.
4. You absolutely do not need to be in a great industry to produce sustained great results. No matter how bad the industry, every good-to-great company figured out how to produce truly superior economic returns. Each good-to-great company built a fabulous economic engine, regardless of the industry. They were able to do this because they attained profound insights into their economics.

3. Economic Denominator

The denominator can be quite subtle, sometimes even unobvious. The key is to use the question of the denominator to gain understanding and insight into your economic model.

This table shows the economic denominator insight attained by the good-to-great companies during the pivotal transition years.	
Abbott: <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 economics of scale. While per-store performance remained vital, regional grouping was a key insight that drove Circuit City's economics beyond Silo's.
Fannie May: <i>per mortgage risk level</i>	Key insight: Shift from profit per mortgage to profit per mortgage risk level reflected the fundamental insight that managing interest risk reduces dependence on the direction of interest rates.
Gillette: <i>per customer</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).
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>	Key insight: Shift from profit per store 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.
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 a commodity.

4. The Council

One particularly useful mechanism for moving the process along is a device that we came to call the Council. The Council consists of a group of the right people who participate in dialogue and debate guided by the three circles, iteratively and over time, about vital issues and decisions facing the organisation.

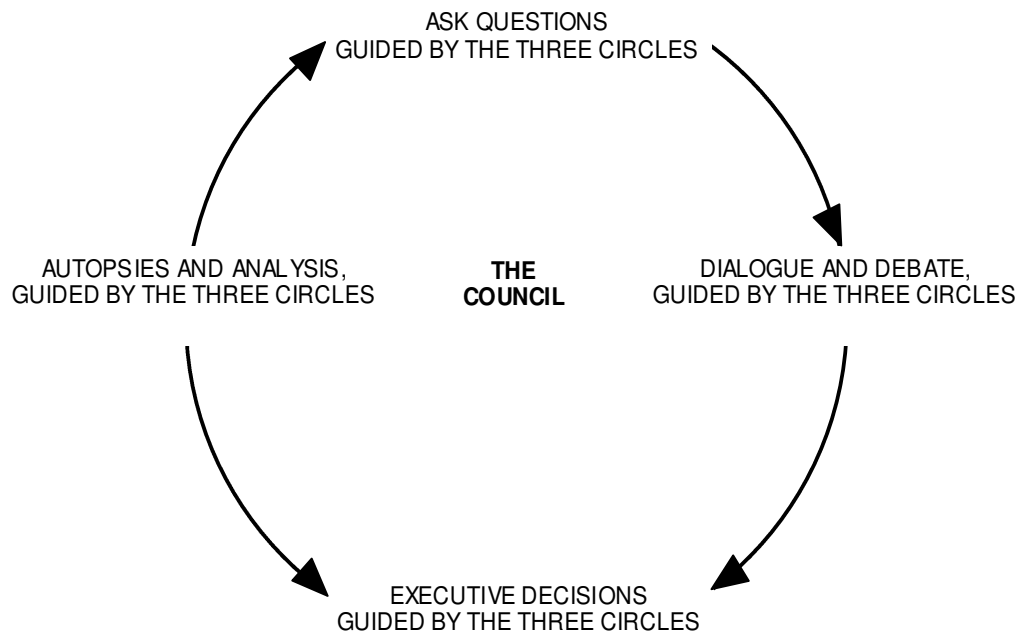
"How should we go about getting our Hedgehog Concept?" I would say: "Firstly build the Council then ask the right questions, engage in vigorous debate, make decisions, autopsy the results, and learn – all guided within the context of the three circles. Just keep going through that cycle of understanding."

"How do we accelerate the process of getting a Hedgehog Concept?" I would respond: "Increase the number of times you go around that full cycle in a given period of time." If you go through this cycle enough times, guided resolutely by the three circles, you will eventually gain the depth of understanding required for a Hedgehog Concept. It will not happen overnight, but it will eventually happen.

Characteristics of the Council

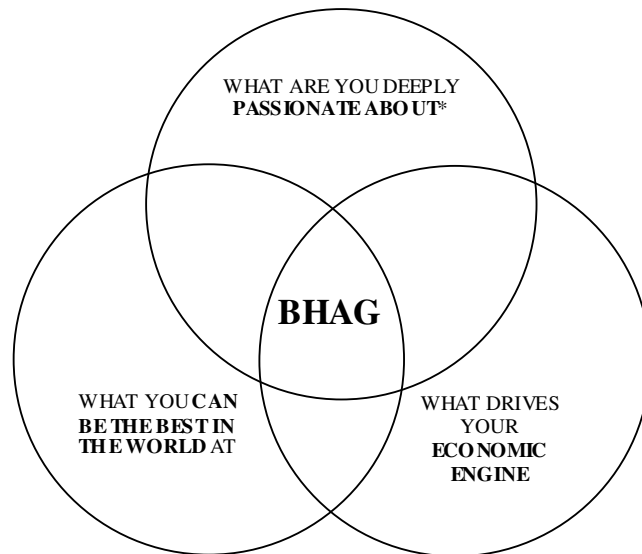
1. The Council exists as a device to gain understanding about important issues facing the organisation.
2. The Council is assembled and used by the leading executive and usually consists of five to twelve people.
3. Each Council member has the ability to argue and debate in search of understanding, not from the egoistic need to win a point or protect a parochial interest.
4. Each Council member retains the respect of every other Council member, *without exception*.
5. Council members come from a range of perspectives, but each member has deep knowledge about some aspect of the organisation and/or the environment in which it operates.
6. The Council includes key members of the management team but is not limited to members of the management team, nor is every executive automatically a member.
7. The Council is a standing body, not an ad hoc committee assembled for a specific project.
8. The Council meets periodically, as much as once a week or as infrequently as once per quarter.
9. The Council does not seek consensus, recognising that consensus decisions are often at odds with intelligent decisions. The responsibility for the final decision remains with the leading executive.

10. The Council is an informal body, not listed on any formal organisation chart or in any formal documents.
11. The Council can have a range of possible names, usually quite innocuous. In the good-to-great companies, they had benign names like Long-Range Profit Improvement Committee, Corporate Products Committee, Strategic Thinking Group, and Executive Council.



5. The Concept of BEHAG (Big Hairy Audacious Goal)

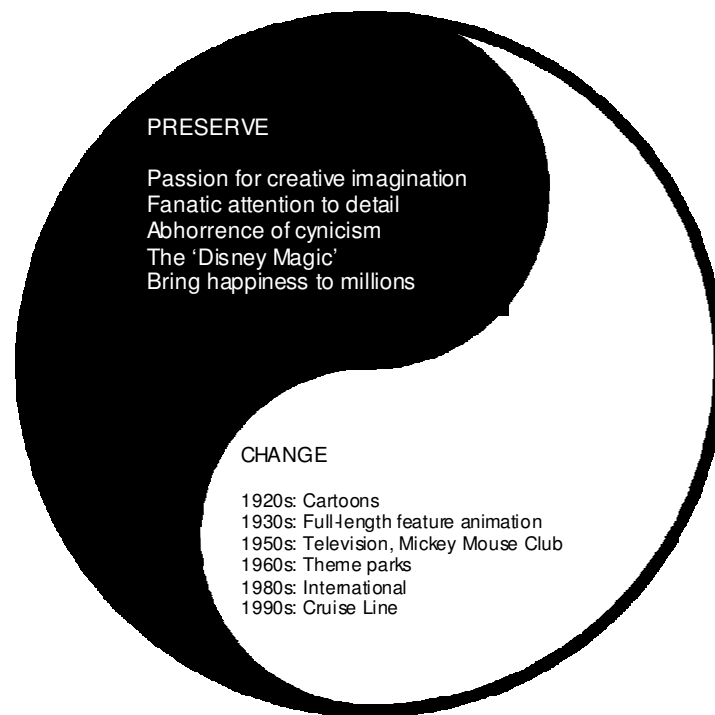
Bad BHAG's, it turns out, are set with *bravado*; good BHAG's are set with *understanding*. Indeed, when you combine quiet understanding of the three circles with the audacity of a BHAG, you get a powerful, almost magical mix.



* Includes your core values and purpose



The Disney Example



6. 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. Saviour CEO's 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 organisation 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.

7. Technology Accelerators

Key Points

- Good-to-great organisations *think* differently about technology and technological change than mediocre ones.
- Good-to-great organisations avoid technology fads and bandwagons, yet they become pioneers in the application of *carefully selected* technologies.
- The key question about any technology is, does the technology fit directly with your Hedgehog Concept? If yes, then you need to become a pioneer in the application of that technology. If no, then you can settle for parity or ignore it entirely.
- The good-to-great companies used technology as an *accelerator* of momentum, not a creator of it. *None* of the good-to-great companies began their transformations with pioneering technology, yet they *all* became pioneers in the application of technology once they grasped how it fit with their three circles and after they hit breakthrough.
- You could have taken the exact same leading-edge technologies pioneered at the good-to-great companies and handed them to their direct competitors for free, and the competitors still would have failed to produce anywhere near the same results.

- How a company reacts to technological change is a good indicator of its inner drive for greatness versus mediocrity. Great companies respond with thoughtfulness and creativity, driven by a compulsion to turn unrealised potential into results; mediocre companies react and lurch about, motivated by fear of being left behind.

Unexpected Findings

- The idea that technological change is the principal cause in the decline of once-great companies (or the perpetual mediocrity of others) is not supported by the evidence. Certainly, a company can't remain a laggard and hope to be great, but technology by itself is never a primary root cause of either greatness or decline.
- Across eighty-four interviews with good-to-great executives, fully 80 percent didn't even mention technology as one of the top five factors in the transformation. This is true even in companies famous for their pioneering application of technology, such as Nucor.
- "Crawl, walk, run" can be a very effective approach, even during times of rapid and radical technological change.

8. The Flywheel and the Doom Loop

- Good-to-great transformation often looks like dramatic, revolutionary events to those observing from the outside, but they feel like organic, cumulative processes to people on the inside. The confusion of end outcomes (dramatic results) with process (organic and cumulative) skews our perception of what really works over the long haul.
- 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.
- Sustainable transformations follow a predictable pattern of build-up and breakthrough. Like pushing on a giant, heavy flywheel, it takes a lot of effort to get the thing moving at all, but with persistent pushing in a consistent direction over a long period of time, they flywheel builds momentum, eventually hitting a point of breakthrough.
- The comparison companies followed a different pattern, the doom loop. Rather than accumulating momentum – turn by turn of the flywheel – they tried to skip build-up and jump immediately to breakthrough. Then, with disappointing results, they'd lurch back and forth, failing to maintain a consistent direction.
- The comparison companies frequently tried to create a breakthrough with large, misguided acquisitions. The good-to-great companies, in contrast, principally used large acquisitions *after* breakthrough, to accelerate momentum in an already fast-spinning flywheel.

Unexpected Results

- Those inside the good-to-great companies were often unaware of the magnitude of their transformation at the time; only later, in retrospect, did it become clear. They had no name, tag line, launch event, or program to signify what they were doing at the time.
- The good-to-great leaders spent essentially no energy trying to “create alignment”, “motivate the troops”, or “manage change”. Under the right conditions, the problems of commitment, alignment, motivation, and change largely take care of themselves. Alignment principally follows *from* results and momentum, not the other way around.
- The short term pressures of Wall Street were not inconsistent with following this model. The flywheel effect is not in conflict with these pressures. Indeed, it is the key to managing them.

9. Summary

When all these pieces come together, not only does your work move towards greatness, but so does your life. For, in the end, it is impossible to have a great life unless it is a meaningful life. And it is very difficult to have a meaningful life without meaningful work. Perhaps, then, you might gain that rare tranquillity that comes from knowing that you’ve had a hand in creating something of intrinsic excellence that makes a contribution. Indeed, you might even gain that deepest of all satisfactions: knowing that your short time here on this earth has been well spent, and that it mattered.

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