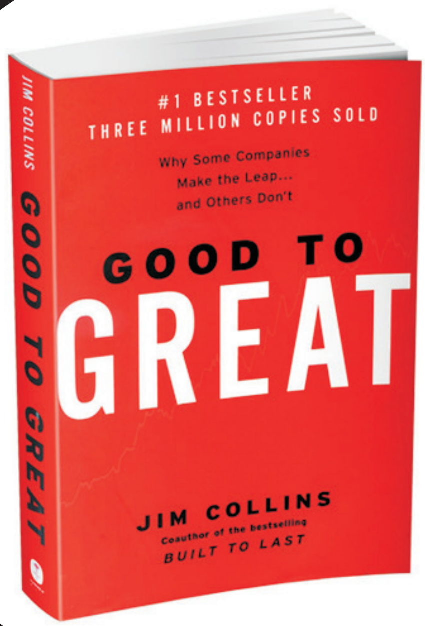
GS SCORE
An Institute for Civil Services

BOOKSHELF

Summaries of Acclaimed Books



GOOD TO GREAT

For Civil Services Examination

www.iasscore.in

ABOUT THE BOOK

Good to Great: Why Some Companies Make the Leap... and Others Don't is a management book by Jim C. Collins that describes how companies transition from being good companies to great companies, and how most companies fail to make the transition. The book was published on October 16, 2001. "Greatness" is defined as financial performance several multiples better than the market average over a sustained period. Using tough benchmarks, Collins and his research team identified a set of elite companies that made the leap to great results and sustained those results for at least fifteen years. How great? After the leap, the good-to-great companies generated cumulative stock returns that beat the general stock market by an average of seven times in fifteen years, better than twice the results delivered by a composite index of the world's greatest companies, including Coca-Cola, Intel, General Electric, and Merck. Collins finds the main reason certain companies become great is they narrowly focus the company's resources on their field of key competence.

****

INDEX

INTRODUCTION

Good to Great: Why Some Companies Make the Leap... and Others Don't is a management book by Jim C. Collins that describes how companies transition from being good companies to great companies, and how most companies fail to make the transition. The book was published on October 16, 2001. "Greatness" is defined as financial performance several multiples better than the market average over a sustained period. Using tough benchmarks, Collins and his research team identified a set of elite companies that made the leap to great results and sustained those results for at least fifteen years. How great? After the leap, the good-to-great companies generated cumulative stock returns that beat the general stock market by an average of seven times in fifteen years, better than twice the results delivered by a composite index of the world's greatest companies, including Coca-Cola, Intel, General Electric, and Merck. Collins finds the main reason certain companies become great is they narrowly focus the company's resources on their field of key competence.

****

1. INTRODUCTION: GOOD IS THE ENEMY OF GREAT

- Good is the enemy of great. And that is one of the key reasons why we have so little that becomes great. We don't have great schools, principally because we have good schools. We don't have great government, principally because we have good government. Few people attain great lives, in large part because it is just so easy to settle for a good life. The vast majority of companies never become great, precisely because the vast majority become quite good-and that is their main problem.
- We identified companies that made the leap from good results to great results and sustained those results for at least fifteen years. We compared these companies to a carefully selected control group of comparison companies that failed to make the leap, or if they did, failed to sustain it. We then compared the good-to-great companies to the comparison companies to discover the essential and distinguishing factors at work. The good-to-great examples that made the final cut into the study attained extraordinary results, averaging cumulative stock returns 6.9 times the general market in the fifteen years following their transition points.
- This book is not about any of the specific companies we studied. It is about the question-Can a good company become a great company and, if so, how?-and our search for timeless, universal answers that can be applied by any organization. This book is dedicated to teaching what we've learned.
- We collected all articles published on the twenty-eight companies, dating back fifty years or more. We systematically coded all the material into categories, such as strategy, technology, leadership, and so forth. Then we interviewed most of the good-to-great executives who held key positions of responsibility during the transition era. We also initiated a wide range of qualitative and quantitative analyses, looking at everything from acquisitions to executive compensation, from business strategy to corporate culture, from layoffs to leadership style, from financial ratios to management turnover. When all was said and done, the total project consumed 10.5 people years of effort. We read and systematically coded nearly 6,000 articles, generated more than 2,000 pages of interview transcripts, and created 384 million bytes of computer data.

****

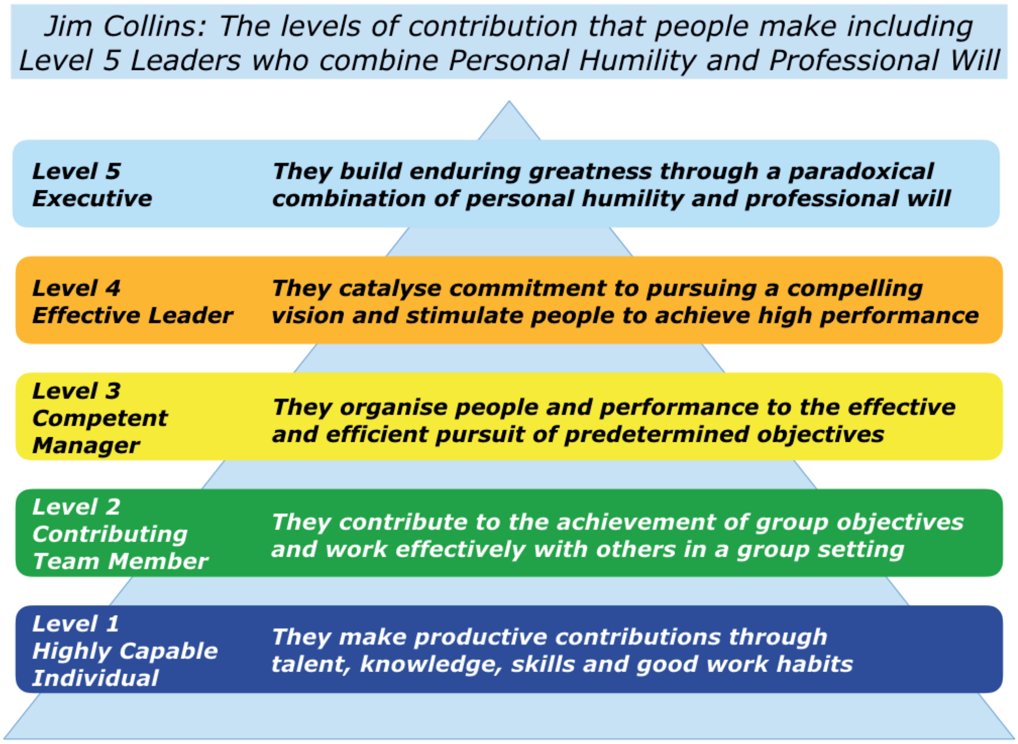
2. LEVEL 5 LEADERSHIP

Introduction:

- In 1971, a seemingly ordinary man named Darwin E. Smith became chief executive of Kimberly-Clark, a stodgy old paper company whose stock had fallen 36 percent behind the general market over the previous twenty years. Smith, the company's mild-mannered in-house lawyer, wasn't so sure the board had made the right choice-a feeling further reinforced when a director pulled Smith aside and reminded him that he lacked some of the qualifications for the position. But CEO he was, and CEO he remained for twenty years. What a twenty years it was. In that period, Smith created a stunning transformation, turning Kimberly-Clark into the leading paper-based consumer products company in the world. Under his stewardship, Kimberly-Clark generated cumulative stock returns 4.1 times the general market, handily beating its direct rivals Scott Paper and Procter & Gamble and outperforming such venerable companies as Coca-Cola, HewlettPackard, 3M, and General Electric.

Key Ideas:

- A man who carried no airs of self-importance, Smith found his favorite companionship among plumbers and electricians and spent his vacations rumbling around his Wisconsin farm in the cab of a backhoe, digging holes and moving rocks.3 He never cultivated hero status or executive celebrity tatu us.^ When a journalist asked him to describe his management style, Smith, dressed unfashionably like a farm boy wearing his first suit bought at J. C. Penney, just stared back from the other side of his nerdy-looking black-rimmed glasses. After a long, uncomfortable silence, he said simply: "Eccentric."
- Two months after becoming CEO, doctors diagnosed Smith with nose and throat cancer, predicting he had less than a year to live. He informed the board but made it clear that he was not dead yet and had no plans to die anytime soon. Smith held fully to his demanding work schedule while commuting weekly from Wisconsin to Houston for radiation therapy and lived twenty-five more years, most of them as CEO.' Smith brought that same ferocious resolve to rebuilding KimberlyClark, especially when he made the most dramatic decision in the company's history: Sell the mills.$ Shortly after he became CEO, Smith and his team had concluded that the traditional core business-coated paper-was doomed to mediocrity. Its economics were bad and the competition weak.9 But, they reasoned, if Kimberly-Clark thrust itself into the fire of the consumer paper-products industry, world-class competition like Procter & Gamble would force it to achieve greatness or perish.
- The business media called the move stupid and Wall Street analysts downgraded the stock." Smith never wavered. Twenty-five years later, Kimberly-Clark owned Scott Paper outright and beat Procter & Gamble in six of eight product categories. In retirement, Smith reflected on his exceptional performance, saying simply, "I never stopped trying to become qualified for the job."
- Darwin Smith stands as a classic example of what we came to call a Level 5 leader-an individual who blends extreme personal humility with intense professional will. We found leaders of this type at the helm of every good-to-great company during the transition era. Like Smith, they were self-effacing individuals who displayed the fierce resolve to do whatever needed to be done to make the company great.



- The good-to-great executives were all cut from the same cloth. It didn't matter whether the company was consumer or industrial, in crisis or steady state, offered services or products. It didn't matter when the transition took place or how big the company. All the good-to-great companies had Level 5 leadership at the time of transition. Furthermore, the absence of Level 5 leadership showed up as a consistent pattern in the comparison companies. Given that Level 5 leadership cuts against the grain of conventional wisdom, especially the belief that we need larger-than-life saviors with big personalities to transform companies, it is important to note that Level 5 is an empirical finding, not an ideological one.

HUMILITY + WILL = LEVEL 5

- Level 5 leaders are a study in duality: modest and willful, humble and fearless. To quickly grasp this concept, think of United States President Abraham Lincoln (one of the few Level 5 presidents in United States history), who never let his ego get in the way of his primary ambition for the larger cause of an enduring great nation.
- A key trait of Level 5 leaders: ambition first and foremost for the company and concern for its success rather than for one's own riches and personal renown. Level 5 leaders want to see the company even more successful in the next generation, comfortable with the idea that most people won't even know that the roots of that success trace back to their efforts. As one Level 5 leader said, "I want to look out from my porch at one of the great companies in the world someday and be able to say, 'I used to work there.' "
- In contrast to the very I-centric style of the comparison leaders, we were struck by how the good-to-great leaders didn't talk about themselves. During interviews with the good-to-great leaders, they'd talk about the company and the contributions of other executives as long as we'd like but would deflect discussion about their own contributions. When pressed to talk about themselves, they'd say things like, "I hope I'm not sounding like a big shot." Or, "If the board hadn't picked such great successors, you probably wouldn't be talking with me today." Or, "Did I have a lot to do with it? Oh, that sounds so self-serving. I don't think I can take much credit. We were blessed with marvelous people." Or, "There are plenty of people in this company who could do my job better than I do." It wasn't just false modesty.

Those who worked with or wrote about the good-to-great leaders continually used words like quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated, did not believe his own clippings; and so forth.

- The good-to-great leaders never wanted to become larger-than-life heroes. They never aspired to be put on a pedestal or become unreachable icons. They were seemingly ordinary people quietly producing extraordinary results.

****

3. FIRST WHO . . . THEN WHAT

Introduction

- When we began the research project, we expected to find that the first step in taking a company from good to great would be to set a new direction, a new vision and strategy for the company, and then to get people committed and aligned behind that new direction. We found something quite the opposite. The executives who ignited the transformations from good to great did not first figure out where to drive the bus and then get people to take it there. No, they first got the right people on the bus (and the wrong people off the bus) and then figured out where to drive it. They said, in essence, "Look, I don't really know where we should take this bus. But I know this much: If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we'll figure out how to take it someplace great."

Key Ideas:

- The good-to-great leaders understood three simple truths:
  - 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."
  - 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.
  - 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.
- In contrast to the good-to-great companies, which built deep and strong executive teams, many of the comparison companies followed a "genius with a thousand helpers" model. In this model, the company is a platform for the talents of an extraordinary individual. In these cases, the towering genius, the primary driving force in the company's success, is a great asset as long as the genius sticks around. The geniuses seldom build great management teams, for the simple reason that they don't need one, and often don't want one.
- The good-to-great companies probably sound like tough places to work and they are. If you don't have what it takes, you probably won't last long. But they're not ruthless cultures, they're rigorous cultures. And the distinction is crucial. To be ruthless means hacking and cutting, especially in difficult times, or wantonly firing people without any thoughtful consideration. 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 good-to-great leaders did not pursue an expedient "try a lot of people and keep who works" model of management. Instead, they adopted the following approach: "Let's take the time to make rigorous A+ selections right up front. If we get it right, we'll do everything we can to try to keep them on board

for a long time. If we make a mistake, then we'll confront that fact so that we can get on with our work and they can get on with their lives." The good-to-great leaders, however, would not rush to judgment. Often, they invested substantial effort in determining whether they had someone in the wrong seat before concluding that they had the wrong person on the bus entirely.

- Members of the good-to-great teams tended to become and remain friends for life. In many cases, they are still in close contact with each other years or decades after working together. It was striking to hear them talk about the transition era, for no matter how dark the days or how big the tasks, these people had fun! They enjoyed each other's company and actually looked forward to meetings. A number of the executives characterized their years on the good-to-great teams as the high point of their lives. Their experiences went beyond just mutual respect (which they certainly had), to lasting comradeship.
- Adherence to the idea of "first who" might be the closest link between a great company and a great life. For no matter what we achieve, if we don't spend the vast majority of our time with people we love and respect, we cannot possibly have a great life. But if we spend the vast majority of our time with people we love and respect-people we really enjoy being on the bus with and who will never disappoint us-then we will almost certainly have a great life, no matter where the bus goes. The people we interviewed from the good-to-great companies clearly loved what they did, largely because they loved who they did it with.

****

4. CONFRONT THE BRUTAL FACTS (YET NEVER LOSE FAITH)

Introduction:

One of the dominant themes from our research is that breakthrough results come about by a series of good decisions, diligently executed and accumulated one on top of another. Of course, the good-to-great companies did not have a perfect track record. But on the whole, they made many more good decisions than bad ones, and they made many more good decisions than the comparison companies.

Key Ideas:

- 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 is that they developed a simple, yet deeply insightful, frame of reference for all decisions. When you start with an honest and diligent effort to determine the truth of the situation, the right decisions often become self-evident. Not always, of course, but often. And even if all decisions do not become self-evident, one thing is certain: You absolutely cannot make a series of good decisions without first confronting the brutal facts. The good-to-great companies operated in accordance with this principle, and the comparison companies generally did not.
- The moment a leader allows himself to become the primary reality people worry about, rather than reality being the primary reality, you have a recipe for mediocrity, or worse. This is one of the key reasons why less charismatic leaders often produce better long-term results than their more charismatic counterparts.
- Winston Churchill understood the liabilities of his strong personality, and he compensated for them beautifully during the Second World War. Churchill, as you know, maintained a bold and unwavering vision that Britain would not just survive, but prevail as a great nation-despite the whole world wondering not if but when Britain would sue for peace. During the darkest days, with nearly all of Europe and North Africa under Nazi control, the United States hoping to stay out of the conflict, and Hitler fighting a one-front war (he had not yet turned on Russia), 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.” Armed with this bold vision, Churchill never failed, however, to confront the most brutal facts. He feared that his towering, charismatic personality might deter bad news from reaching him in its starkest form. So, early in the war, he created an entirely separate department outside the normal chain of command, called the Statistical Office, with the principal function of feeding him-continuously updated and completely unfiltered-the most brutal facts of reality. He relied heavily on this special unit throughout the war, repeatedly asking for facts, just the facts. As the Nazi panzers swept across Europe, Churchill went to bed and slept soundly: “I . . . had no need for cheering dreams,” he wrote. “Facts are better than dreams.”
- **A CLIMATE WHERE THE TRUTH IS HEARD:** Now, you might be wondering, “How do you motivate people with brutal facts? Doesn’t motivation flow chiefly from a compelling vision?” The answer,

surprisingly, is, “No.” Not because vision is unimportant, but because expending energy trying to motivate people is largely a waste of time. One of the dominant themes that runs throughout this book is that if you successfully implement its findings, you will not need to spend time and energy “motivating” people. If you have the right people on the bus, they will be self-motivated. The real question then becomes: How do you manage in such a way as not to de-motivate people? And one of the single most de-motivating actions you can take is to hold out false hopes, soon to be swept away by events.

- Throughout our research, we were continually reminded of the “hardiness” research studies done by the International Committee for the Study of Victimization. These studies looked at people who had suffered serious adversity-cancer patients, prisoners of war, accident victims, and so forth-and survived. They found that people fell generally into three categories: those who were permanently dispirited by the event, those who got their life back to normal, and those who used the experience as a defining event that made them stronger. The good-to-great companies were like those in the third group, with the “hardiness factor.”
- The good-to-great leaders were able to strip away so much noise and clutter and just focus on the few things that would have the greatest impact. They were able to do so in large part because they operated from both sides, never letting one side overshadow the other. If you are able to adopt this dual pattern, you will dramatically increase the odds of making a series of good decisions and ultimately discovering a simple, yet deeply insightful, concept for making the really big choices. And once you have that simple, unifying concept, you will be very close to making a sustained transition to breakthrough results. It is to the creation of that concept that we now turn.

****

5. THE HEDGEHOG CONCEPT (SIMPLICITY WITHIN THE THREE CIRCLES)

Introduction:

- In his famous essay "The Hedgehog and the Fox," Isaiah Berlin divided the world into hedgehogs and foxes, based upon an ancient Greek parable: "The fox knows many things, but the hedgehog knows one big thing." The fox is a cunning creature, able to devise a myriad of complex strategies for sneak attacks upon the hedgehog. Day in and day out, the fox circles around the hedgehog's den, waiting for the perfect moment to pounce. Fast, sleek, beautiful, fleet of foot, and crafty-the fox looks like the sure winner. The hedgehog, on the other hand, is a dowdier creature, looking like a genetic mix-up between a porcupine and a small armadillo. He waddles along, going about his simple day, searching for lunch and taking care of his home. The fox waits in cunning silence at the juncture in the trail. The hedgehog, minding his own business, wanders right into the path of the fox.
- "Aha, I've got you now!" thinks the fox. He leaps out, bounding across the ground, lightning fast. The little hedgehog, sensing danger, looks up and thinks, "Here we go again. Will he ever learn?" Rolling up into a perfect little ball, the hedgehog becomes a sphere of sharp spikes, pointing outward in all directions. The fox, bounding toward his prey, sees the hedgehog defense and calls off the attack. Retreating back to the forest, the fox begins to calculate a new line of attack. Each day, some version of this battle between the hedgehog and the fox takes place, and despite the greater cunning of the fox, the hedgehog always wins.

Key Ideas:

- Berlin extrapolated from this little parable to divide people into two basic groups: foxes and hedgehogs. Foxes pursue many ends, at the same time and see the complexity. They are "scattered or diffused, moving on many levels," says Berlin, never integrating their thinking into one overall concept or unifying vision. Hedgehogs, on the other hand, simplify a complex world into a single organizing idea, a basic principle or concept that unifies and guides everything. It doesn't matter how complex the world, a hedgehog reduces all challenges and dilemmas to simple indeed almost simplistic-hedgehog ideas. For a hedgehog, anything that does not somehow relate to the hedgehog idea holds no relevance.
- Princeton professor Marvin Bressler pointed out the power of the hedgehog during one of our long conversations: "You want to know what separates those who make the biggest impact from all the others who are just as smart? They're hedgehogs." Freud and the unconscious, Darwin and natural selection, Marx and class struggle, Einstein and relativity, Adam Smith and division of labor-they were all hedgehogs. They took a complex world and simplified it. "Those who leave the biggest footprints," said Bressler, "have thousands calling after them, 'Good idea, but you went too far!' "

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 in 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.

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:

1. First, you are doing work for which you have a genetic or Godgiven 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.")

2. Second, you are well paid for what you do. ("I get paid to do this? Am I dreaming?")

3. Third, you are doing the 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.

To have a fully developed Hedgehog Concept, you need all three circles. If you make a lot of money doing things at which you could never be the best, you'll only build a successful company, not a great one. If you become the best at something, you'll never remain on top if you don't have intrinsic passion for what you are doing. Finally, you can be passionate all you want, but if you can't be the best at it or it doesn't make economic sense, then you might have a lot of fun, but you won't produce great results.

- Every company would like to be the best at something, but few actually understand-with piercing insight and egoless clarity-what they actually have the potential to be the best at and, just as important, what they cannot be the best at. And it is this distinction that stands as one of the primary contrasts between the good-to-great companies and the comparison companies.

- Does every organization have a Hedgehog Concept to discover? What if you wake up, look around with brutal honesty, and conclude: "We're not the best at anything, and we never have been." Therein lies one of the most exciting aspects of the entire study. In the majority of cases, the good-to-great companies were not the best in the world at anything and showed no prospects of becoming so. Infused with the Stockdale Paradox ("There must be something we can become the best at, and we will find it! We must also confront the brutal facts of what we cannot be the best at, and we will not delude ourselves!"), every good-to-great company, no matter how awful at the start of the process, prevailed in its search for a Hedgehog Concept.

****

6. A CULTURE OF DISCIPLINE

Introduction:

- Most companies build their bureaucratic rules to manage the small percentage of wrong people on the bus, which in turn drives away the right people on the bus, which then increases the percentage of wrong people on the bus, which increases the need for more bureaucracy to compensate for incompetence and lack of discipline, which then further drives the right people away, and so forth. An alternative also exists: Avoid bureaucracy and hierarchy and instead create a culture of discipline. When you put these two complementary forces together-a culture of discipline with an ethic of entrepreneurship-you get a magical alchemy of superior performance and sustained results.

Key Ideas:

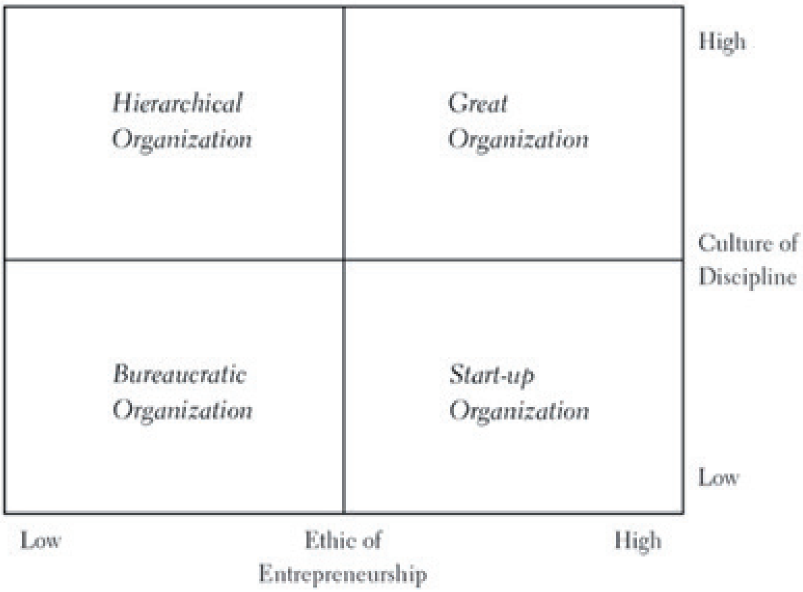
- When you set your objectives for the year, you record them in concrete. You can change your plans through the year, but you never change what you measure yourself against. You are rigorous at the end of the year, adhering exactly to what you said was going to happen. You don't get a chance to editorialize. You don't get a chance to adjust and finagle, and decide that you really didn't intend to do that anyway, and readjust your objectives to make yourself look better. You never just focus on what you've accomplished for the year; you focus on what you've accomplished relative to exactly what you said you were going to accomplish-no matter how tough the measure.

How to create a Culture of Discipline

- Build a culture around the idea of freedom and responsibility, within a framework.
- Fill that culture with self-disciplined people who are willing to go to extreme lengths to fulfill their responsibilities. They will "rinse their I cottage cheese."
- Don't confuse a culture of discipline with a tyrannical disciplinarian.
- Adhere with great consistency to the Hedgehog Concept, exercising an almost religious focus on the intersection of the three circles. Equally important, create a "stop doing list" and systematically unplug anything extraneous.

It all starts with disciplined people. The transition begins not by trying t o discipline the wrong people into the right behaviors, but by getting self-disciplined people on the bus in the first place. Next we have disciplined thought. You need the discipline to confront the brutal facts of reality, while retaining resolute faith that you can and will create a path to greatness. Most importantly, you need the discipline to persist in the search for understanding until you get your Hedgehog Concept. Finally, we have disciplined action, the primary subject of this chapter. This order is important. The comparison companies often tried to jump right to disciplined action. But disciplined action without self-disciplined people is impossible to sustain, and disciplined action without disciplined thought is a recipe for disaster.

The Good-to-Great Matrix of Creative Discipline



- Indeed, discipline by itself will not produce great results. We find plenty of organizations in history that had tremendous discipline and that marched right into disaster, with precision and in nicely formed lines. No, the point is to first get self-disciplined people who engage in very rigorous thinking, who then take disciplined action within the framework of a consistent system designed around the Hedgehog Concept.
- **START A “STOP DOING” LIST:** Do you have a “to do’ list? Do you also have a “stop doing” list? Most of us lead busy but undisciplined lives. We have ever-expanding “to do” lists, trying to build momentum by doing, doing, doing-and doing more. And it rarely works. Those who built the good-to-great companies, however, made as much use of “stop doing” lists as “to do” lists. They displayed a remarkable discipline to unplug all sorts of extraneous junk.

****

7. TECHNOLOGY ACCELERATORS

Introduction:

- The point of this chapter has little to do with the specifics of the Internet bubble, per se. Bubbles come and bubbles go. It happened with the railroads. It happened with electricity. It happened with radio. It happened with the personal computer. It happened with the Internet. And it will happen again with unforeseen new technologies. Yet through all of this change, great companies have adapted and endured. Indeed, most of the truly great companies of the last hundred years-from Wal-Mart to Walgreens, from Procter & Gamble to KimberlyClark, from Merck to Abbott-trace their roots back through multiple generations of technology change, be it electricity, television, or the Internet. They've adapted before and emerged great. The best ones will adapt again.

Key Ideas:

- To make technology productive in a transformation from good to great means asking the following questions. 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 ask, do you need this technology at all? If yes, then all you need is parity. (You don't necessarily need the world's most advanced phone system to be a great company.) If no, then the technology is irrelevant, and you can ignore it.
- We came to see the pioneering application of technology as just one more way in which the good-to-great companies remained disciplined within the frame of their Hedgehog Concept. Conceptually, their relationship to technology is no different from their relationship to any other category of decisions: disciplined people, who engage in disciplined thought, and who then take disciplined action. 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. However, once they understand which technologies are relevant, they become fanatical and creative in the application of those technologies.
- Throughout business history, early technology pioneers rarely prevail in the end. VisiCalc, for example, was the first major personal computer spreadsheet. Where is VisiCalc today? Do you know anyone who uses it? And what of the company that pioneered it? Gone; it doesn't even exist. VisiCalc eventually lost out to Lotus 1-2-3, which itself lost out to Excel. Lotus then went into a tailspin, saved only by selling out to IBM. Similarly, the first portable computers came from now-dead companies, such as Osborne computers. Today, we primarily use portables from companies such as Dell and Sony.
- Indeed, thoughtless reliance on technology is a liability, not an asset. Yes, when used right-when linked to a simple, clear, and coherent concept rooted in deep understanding-technology is an essential driver in accelerating forward momentum. But when used wrong-when grasped as an easy solution, without a deep understanding of how it links to a clear and coherent concept-technology simply accelerates your own self-created demise.
- No technology, no matter how amazing-not computers, not telecommunications, not robotics, not the Internet-can by itself ignite a shift from good to great. No technology can make you Level 5. No technology can turn the wrong people into the right people. No technology can instill the discipline to confront brutal facts of reality, nor can it instill unwavering faith. No technology can supplant the need for deep understanding of the three circles and the translation of that understanding into a simple Hedgehog Concept. No technology can create a culture of discipline. No technology can instill

the simple inner belief that leaving unrealized potential on the table-letting something remain good when it can become great-is a secular sin.

- Those that stay true to these fundamentals and maintain their balance, even in times of great change and disruption, will accumulate the momentum that creates breakthrough momentum. Those that do not, those that fall into reactionary lurching about, will spiral downward or remain mediocre. This is the big-picture difference between great and good.

****

8. THE FLYWHEEL AND THE DOOM LOOP

Introduction:

- Picture a huge, heavy flywheel-a massive metal disk mounted horizontally on an axle, about 30 feet in diameter, 2 feet thick, and weighing about 5,000 pounds. Now imagine that your task is to get the flywheel rotating on the axle as fast and long as possible. Pushing with great effort, you get the flywheel to inch forward, moving almost imperceptibly at first. You keep pushing and, after two or three hours of persistent effort, you get the flywheel to complete one entire turn. You keep pushing, and the flywheel begins to move a bit faster, and with continued great effort, you move it around a second rotation. You keep pushing in a consistent direction. Three turns . . . four. . . five . . . six. . . the flywheel builds up speed. . . seven. . . eight. . . you keep pushing. . . nine. . . ten . . . it builds momentum. . . eleven. . . twelve. . . moving faster with each turn . . . twenty. . . thirty. . . fifty. . . a hundred. Then, at some point-breakthrough! The momentum of the thing kicks in in your favor, hurling the flywheel forward, turn after turn. . . whoosh! . . . its own heavy weight working for you. You're pushing no harder than during the first rotation, but the flywheel goes faster and faster. Each turn of the flywheel builds upon work done earlier, compounding your investment of effort. A thousand times faster, then ten thousand, then a hundred thousand. The huge heavy disk flies forward, with almost unstoppable momentum.

Key Ideas:

- The flywheel image captures the overall feel of what it was like inside the companies as they went 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 wrenching revolution. Good to great comes about by a cumulative process-step by step, action by action, decision by decision, turn by turn of the flywheel-that adds up to sustained and spectacular results.
- There was no miracle moment. Although it may have looked like a single-stroke breakthrough to those peering in from the outside, it was anything but that to people experiencing the transformation from within. Rather, it was a quiet, deliberate process of figuring out what needed to be done to create the best future results and then simply taking those steps, one after the other, turn by turn of the flywheel. After pushing on that flywheel in a consistent direction over an extended period of time, they'd inevitably hit a point of breakthrough.
- **THE FLYWHEEL EFFECT:** The good-to-great companies understood a simple truth: Tremendous power exists in the fact of continued improvement and the delivery of results. Point to tangible accomplishments - however incremental at first - and show how these steps fit into the context of an overall concept that will work. When you do this in such a way that people see and feel the buildup of momentum, they will line up with enthusiasm. We came to call this the flywheel effect, and it applies not only to outside investors but also to internal constituent groups.
- **THE DOOM LOOP:** We found a very different pattern at the comparison companies. Instead of a quiet, deliberate process of figuring out what needed to be done and then simply doing it, the comparison companies frequently launched new programs -often with great fanfare and hoopla aimed at 'motivating the troops'- only to see the programs fail to produce sustained results. They sought the single defining action, the grand program, the one killer innovation, the miracle moment that would

allow them to skip the arduous buildup stage and jump right to breakthrough. They would push the flywheel in one direction, then stop, change course, and throw it in a new direction-and then they would stop, change course, and throw it into yet another direction. After years of lurching back and forth, the comparison companies failed to build sustained momentum and fell instead into what we came to call the doom loop.

- **THE FLYWHEEL AS A WRAPAROUND IDEA:** When I look over the good-to-great transformations, the one word that keeps coming to mind is consistency. Another word offered to me by physics professor R. J. Peterson is coherence. “What is one plus one?” he asked, then paused for effect. “Four! In physics, we have been talking about the idea of coherence, the magnifying effect of one factor upon another. In reading about the flywheel, I couldn’t help but think of the principle of coherence.” However you phrase it, the basic idea is the same: Each piece of the system reinforces the other parts of the system to form an integrated whole that is much more powerful than the sum of the parts. It is only through consistency over time, through multiple generations, that you get maximum results.

****

9. FROM GOOD TO GREAT TO BUILT TO LAST

Introduction:

- Built to Last, based on a six-year research project conducted at Stanford Business School in the early 1990s, answered the question, What does it take to start and build an enduring great company from the ground up? My research mentor and coauthor Jerry I. Porras and I studied eighteen enduring great companies-institutions that stood the test of time, tracing their founding in some cases back to the 1800s, while becoming the iconic great companies of the late twentieth century. We examined companies like Procter & Gamble (founded in 1837), American Express (founded in 1850), Johnson & Johnson (founded in 1886), and GE (founded in 1892). One of the companies, Citicorp (now Citigroup), was founded in 1812, the same year Napoleon marched into Moscow! The "youngest" companies in the study were Wal-Mart and Sony, which trace their origins back to 1945. Similar to this book, we used direct comparison companies- 3M versus Norton, Walt Disney versus Columbia Pictures, Marriott versus Howard Johnson, and so forth-for eighteen paired comparisons. In short, we sought to identify the essential distinctions between great companies and good companies as they endure over decades, even centuries.

Key Ideas

- When I consider the enduring great companies from Built to Last, I now see substantial evidence that their early leaders followed the good-to-great framework. The only real difference is that they did so as entrepreneurs in small, early-stage enterprises trying to get off the ground, rather than as CEOs trying to transform established companies from good to great.
- In an ironic twist, I now see Good to Great not as a sequel to Built to Last, but as a prequel. Apply the findings in this book to create sustained great results, as a start-up or an established organization, and then apply the findings in Built to Last to go from great results to an enduring great company.
- To make the shift from a company with sustained great results to an enduring great company of iconic stature, apply the central concept from Built to Last: Discover your core values and purpose beyond just making money (core ideology) and combine this with the dynamic of preserve the core/stimulate progress.
- Looking back on the Built to Last study, it appears that the enduring great companies did in fact go through a process of buildup to breakthrough, following the good-to-great framework during their formative years.
- 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 leader or a single great idea.
- Genius ofAND. Embrace both extremes on a number of dimensions at the same time. Instead of choosing A OR B, figure out how to have A AND B -purpose AND profit, continuity AND change, freedom AND responsibility, etc.
- Core Ideology. Instill core values (essential and enduring tenets) and core purpose (fundamental reason for being beyond just making money) as principles to guide decisions and inspire people throughout the organization over a long period of time.

- Preserve the Core/Stimulate Progress. Preserve the core ideology as an anchor point while stimulating change, improvement, innovation, and renewal in everything else. Change practices and strategies while holding core values and purpose fixed.
- When all these pieces come together, not only does your work move toward 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.

****

10. EPILOGUE : FREQUENTLY ASKED QUESTIONS

- **What is the role of the board of directors in a transformation from good to great?**
  - First, boards play a key role in picking Level 5 leaders. The recent spate of boards enamored with charismatic CEOs, especially “rock star” celebrity types, is one of the most damaging trends for the long-term health of companies. Boards should familiarize themselves with the characteristics of Level 5 leadership and install such leaders into positions of responsibility. Second, boards at corporations should distinguish between share value and share price. Boards have no responsibility to a large chunk of the people who own company shares at any given moment, namely the shareflippers; they should refocus their energies on creating great companies that build value for the shareholders. Managing the stock for anything less than a five-to-ten-year horizon confuses price and value and is irresponsible to shareholders.

- **How can you practice the discipline of “first who’’ when there is a shortage of outstanding people?**
  - First, at the top levels of your organization, you absolutely must have the discipline not to hire until you find the right people. The single most harmful step you can take in a journey from good to great is to put the wrong people in key positions. Second, widen your definition of “right people” to focus more on the character attributes of the person and less on specialized knowledge.

- **Where and how should I begin?**
  - First, familiarize yourself with all the findings. Remember, no single finding by itself makes a great organization; you need to have them all working together as an integrated set. Then work sequentially through the framework, starting with “first who” and moving through all the major components. Meanwhile, work continuously on your own development toward Level 5 leadership. I have laid out this book in a sequence consistent with what we observed in the companies; the very structure of the book is a road map. I wish you the best of luck on your journey from good to great.

****