A Book Report on

Good to Great

By Jim Collins

(Book Report by Gary Tomlinson)

Preface:

Jim Collins is coauthor of *Built to Last*, a national bestseller for over five years with a million copies in print. A student of enduring great companies, he serves as a teacher to leaders throughout the corporate and social sectors. Formerly a faculty member at the Stanford University Graduate School of Business, where he received the Distinguished Teaching Award, Jim now works from his management research laboratory in Boulder, Colorado.

The Challenge: *Built to Last*, the defining management study of the nineties showed how great companies triumph over time and how long-term sustained performance can be engineered in the DNA of an enterprise from the very beginning. But what about the company that is not born with great DNA? How can good companies, mediocre companies, even bad companies achieve enduring greatness?

The Study: For years, this question preyed on the mind of Jim Collins. Are there companies that defy gravity and convert long-term mediocrity or worse into long-term superiority? And if so, what are the universal distinguishing characteristics that cause a company to go from good to great?

The Standards: Using tough benchmarks, Collins and his research team identified a set of elite companies that made the leap to great results and sustained those great 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 that twice the results delivered by a composite index of the world's greatest companies, including Coca-Cola, Intel, General Electric, and Merck.

The Comparisons: The research team contrasted the good-to-great companies with a carefully selected set of comparison companies that failed to make the leap from good to great. What was different? Why did one set of companies become truly great performers while the other set remained only good?

Over five years, the team analyzed the histories of all twenty-eight companies in the study. After sifting through mountains of data and thousands of pages of interviews, Collins and his crew discovered the key determinants of greatness – why some companies make the leap and others don't.

The Findings: The findings of the *Good to Great* study will surprise many readers and shed the light on virtually every area of management strategy and practice. The findings include:

- **Level 5 Leaders:** The research team was shocked to discover the type of leadership required to achieve greatness.
- **The Hedgehog Concept (Simplicity within the Three Circles):** To go from good to great requires transcending the curse of competence.
- **A Culture of Discipline:** When you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great results.
- **Technology Accelerators:** Good-to-great companies think differently about the role of technology.
- **The Flywheel and the Doom Loop:** Those who launch radical change programs and wrenching restructurings will almost certainly fail to make the leap.

"Some of the key concepts discerned in the study," comments Jim Collins, "fly in the face of our modern business culture and will, quite frankly, upset some people." Perhaps, but who can afford to ignore these findings?

Chapter 1 – 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.

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? Our five-year quest yielded many insights, a number of them surprising and quite contrary to conventional wisdom, but one giant conclusion stands above the others: *We believe that almost any organization can substantially improve its stature and performance, perhaps even become great, if it conscientiously applies the framework of ideas we've uncovered.*

This book is dedicated to teaching what we've learned.

It is important to understand that we developed all of the concepts in this book by making empirical deductions directly from the data. We did not begin this project with a theory to test or prove. We sought to build a theory from the ground up, derived directly from the evidence.

The core of our method was a systematic process of contrasting the good-to-great examples to the comparisons, always asking, “What’s different?” We also made particular note of “dogs that did not bark.” It is important to note that in our study, what we didn’t find – dogs that we might have expected to bark but didn’t – turned out to be some of the best clues to the inner workings of good to great. So, I invite you to join me on an intellectual adventure to discover what it takes to turn good into great. I also encourage you to question and challenge what you learn.

Chapter 2 – Level 5 Leadership:

Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. It’s not that Level 5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious – but their ambition is first and foremost for the institution, not themselves.

The Level 5 Hierarchy:

Level 5	LEVEL 5 EXECUTIVE Builds enduring greatness through a paradoxical blend of humility and professional will.
Level 4	EFFECTIVE LEADER Catalyzes commitment to and vigorous pursuit of a clear and compelling vision, stimulating higher performance standards.
Level 3	COMPETENT MANAGER Organizes people and resources toward the effective and efficient pursuit of pre-determined objectives.
Level 2	CONTRIBUTING TEAM MEMBER Contributes individual capabilities to the achievement of group objectives and works effectively with others in a group setting.
Level 1	HIGHLY CAPABLE INDIVIDUAL Makes productive contributions through talent, knowledge, skills, and good work habits.

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.

Summary: The Two Sides of Level 5 Leadership

Professional Will	**Personal Humility**
Creates superb results, a clear catalyst in the transition from good to great.	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 else.	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, eternal 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.

Chapter 2 Summary – Level 5 Leadership – Key Points

- Every good-to-great company had Level 5 leadership during pivotal transition years.
- "Level 5" refers to a five-level hierarchy of executive capabilities, with Level 5 at the top. Level 5 leaders embody a paradoxical mix of personal humility and professional will. They are ambitious, to be sure, but ambitious first and foremost for the company, not themselves.

- Level 5 leaders set up their successors for even greater success in the next generation, whereas egocentric Level 4 leaders often set up their successors for failure.
- Level 5 leaders display a compelling modesty, are self-effacing and understated. In contrast, two thirds of comparison companies had leaders with gargantuan personal egos that contributed to the demise or continue mediocrity of the company.
- Level 5 leaders are fanatically driven, infected with an incurable need to produce sustained results. They are resolved to do whatever it takes to make the company great, no matter how big or hard the decisions.
- Level 5 leaders display a workmanlike diligence – more plow horse than show horse.
- Level 5 leaders look out the window to attribute success to factors other than themselves. When things go poorly, however, they look in the mirror and blame themselves, taking full responsibility. The comparison CEO's often did just the opposite – they looked in the mirror to take credit for success, but out the window to assign blame for disappointing results.
- One of the most damaging trends in recent history is the tendency (especially by boards of directors) to select dazzling, celebrity leaders and to de-select potential Level 5 leaders.
- I believe that potential Level 5 leaders exist all around us, if we just know what to look for, and that many people have the potential to evolve into Level 5.

Unexpected Findings

- Larger-than-life, celebrity leaders who ride in from the outside are negatively correlated with going from good to great. Ten of eleven good-to-great CEO's came from inside the company, whereas the comparison companies tried outside CEO's six times more often.
- Level 5 leaders attribute much of their success to good luck, rather than personal greatness.
- We were not looking for Level 5 leadership in our research, or anything like it, but the data was overwhelming and convincing. It is an empirical, not an ideological, finding.

Chapter 3 – First Who . . . Then What:

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 the 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.

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.

Second, if you have the right people on the bus, the problem of how to motivate and manage people largely go 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.

It's Who You Pay, Not How You Pay Them. We found no systematic pattern linking executive compensation to the process of going from good to great. The evidence simply does not support the idea that the specific structure of executive compensation acts as a key lever in taking a company from good to great.

Yes, compensation and incentives are important, but for very different reasons in good-to-great companies. The purpose of a compensation system should not be to get the right behaviors from the wrong people, but to get the right people on the bus in the first place, and to keep them there.

In a good-to-great transformation, people are not your most important asset. The right people are.

Rigorous, Not Ruthless. 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.

Those who build great companies understand that the ultimate throttle on growth for any great company is not markets, or technology, or competition, or products.

It is one thing above all others: the ability to get and keep enough of the right people.

Chapter 3 Summary – First Who . . . Then What – Key Points

- 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.
- They 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 organization structure, before tactics. First who, then what – as a rigorous discipline, consistently applied.
- The comparison companies frequently followed the "genius with a thousand helper" 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 it 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.

Unexpected Findings

- 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 behaviors 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.

Chapter 4 – Confront the Brutal Facts (Yet Never Lose Faith):

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.

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 we will discuss in the next chapter, is that they developed a simple, yet deeply insightful frame of reference for all decisions.)

There is nothing wrong with pursuing a vision for greatness. After all, the good-to-great companies also set out to create greatness. But, unlike the comparison companies, the good-to-great companies continually refined the path to greatness with the brutal facts of reality.

The moment a leader allows himself to become the primary reality people worry about, rather than the 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.

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.

Yes, leadership is about vision. But leadership is equally about creating a climate where the truth is heard and the brutal facts confronted. There’s a huge difference between the opportunity to “have your say” and the opportunity to be heard. The good-to-great leaders understood this distinction, creating a culture wherein people had a tremendous opportunity to be heard and, ultimately, for the truth to be heard.

How do you create a climate where the truth is heard? We offer four basic practices:

1. *Lead with questions, not answers*. Leading from good to great does not mean coming up with the answers and then motivating everyone to follow your messianic vision. It means having the humility to grasp the fact that you do not yet understand enough to have the answers and then to ask the questions that will lead to the best possible insights.
2. *Engage in dialogue and debate, not coercion*. All the good-to-great companies had a penchant for intense dialogue. They didn't use discussion as a sham process to let people "have their say" so that they could "buy in" to a predetermined decision. The process was more like a heated scientific debate, with people engaged in a search for the best answers.
3. *Conduct autopsies, without blame*. When you conduct autopsies without blame, you go a long way toward creating a climate where the truth is heard. If you have the right people on the bus, you should almost never need to assign blame but need only to search for understanding and learning.
4. *Build "red flag" mechanisms*. 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.

Unwavering Faith Amid the Brutal Facts. In confronting the brutal facts, the good-to-great companies left themselves stronger and more resilient, not weaker and more dispirited. 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."

The Stockdale Paradox – You must retain faith that you will prevail in the end, regardless of the difficulties and at the same time you must also confront the most brutal facts of your current reality, whatever they might be.

Like much of what we found in our research, the key elements of greatness are deceptively simple and straightforward. 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 of the Stockdale Paradox, 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.

Chapter 4 Summary – Confront the Brutal Facts – 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

- 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.

Unexpected Findings

- 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 the 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.

Chapter 5 – The Hedgehog Concept (Simplicity within the Three Circles):

Are you a hedgehog or a fox?

> 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.

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 world in all its 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 principal 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 related to the hedgehog idea holds no relevance.

Those who built the good-to-great companies were, to one degree or another, hedgehogs. They used their hedgehog nature to drive toward what we came to call a Hedgehog Concept for their companies. Those who led the comparison companies tended to be foxes, never gaining the clarifying advantage of a Hedgehog Concept, being instead scattered, diffused, and inconsistent.

The Three Circles: The essential difference between the good-to-great companies 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 in the world at* (and equally as 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.

This brings me to one of the most crucial points of this chapter: 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 critical. 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.

To go from good to great requires transcending the curse of competence. It requires the discipline to say, "Just because we are good at it – just because we are making money and generating growth – doesn't necessarily mean we can become the best at it." The good-to-great companies understood that doing what you are good at, will only make you good; focusing solely on what you can potentially do better than any other organization is the only path to greatness.

What is Your Denominator? Each good-to-great company attained a deep understanding of the key drivers in its economic engine and built its system in accordance with this understanding. We noticed one particularly provocative form of economic insight that every good-to-great company attained the notion of a single "economic denominator." Think about it in terms of the following question: *If you could pick one and only one ratio – profit per x (or in the social* *sector, cash flow per x) to systematically increase over time, what x would have the greatest and most sustainable impact on your economic engine?* We learned that this single question leads to profound insight into the inner workings of an organization's economics.

All the good-to-great companies discovered a key economic denominator (see the table on page 106) while the comparison companies usually did not.

Understanding Your Passion: The good-to-great companies did not say, "Okay folks, let's get passionate about what we do." Sensibly, they went the other way entirely: We should only do those things that we can get passionate about.

The Triumph of Understanding Over Bravado: For the comparison companies, the exact same world that had become so simple and clear to the good-to-great companies remained complex and shrouded in mist. Why? For two reasons. First, the comparison companies never asked the right questions prompted by the three circles. Second, they set their goals and strategies more from bravado than from understanding.

The Hedgehog Concept is a turning point in the journey from good to great. In most cases, the transition date follows within a few years of the Hedgehog Concept. Despite it vital importance, it would be a mistake to thoughtlessly attempt to jump right to a Hedgehog Concept. Insight doesn't happen that way. It took about four years on average for the good-to-great companies to clarify their Hedgehog Concept.

Like scientific insight, a Hedgehog Concept simplifies a complex world and makes decisions much easier. But while it has crystalline clarity and elegant simplicity once you have it, getting the concept can be devilishly difficult and takes time. Recognize that getting a Hedgehog Concept is an inherently iterative process, not an event.

The essence of the process is to get the right people engaged in vigorous dialogue and debate, infused with the brutal facts and guided by the questions formed by the three circles. Do we really understand what we can be the best in the world at, as distinct from what we can just be successful at? Do we really understand the drivers in our economic engine, including our economic denominator? Do we really understand what best ignites our passion?

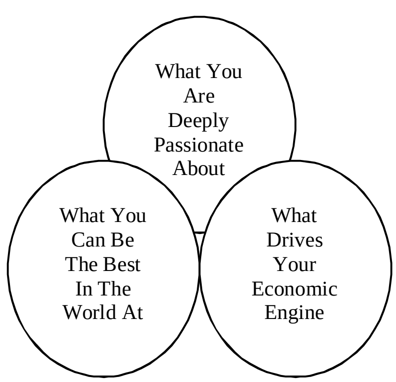
One particularly useful mechanism for moving the process along is a device that we came to call the Council. The Council consists of a group of the right people who participate in dialogue and debate guided by the three circles, iteratively and over time, about vital issues and decisions facing the organization. The Council members must ask the right questions, engage in vigorous debate, make decisions, autopsy the results, and learn – all guided within the context of the three circles.

Characteristics of the Council

1. The Council exists as a device to gain understanding about important issues facing the organization.
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 organization 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, recognizing 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 organization 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.

Chapter 5 Summary – Hedgehog Concept – Key Points

- To go from good to great requires 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 organization 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 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 could become the best in the world, but 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.
- 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.

Unexpected Findings

- 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.
- It took four years on average for the good-to-great companies to get a Hedgehog Concept.
- 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.
- 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.

Chapter 6 – A Culture of Discipline:

A key finding of our study is that good-to-great companies all had a *culture of discipline*. By its nature, "culture" is a somewhat unwieldy topic to discuss, less prone to clean frameworks like the three circles. The main points of this chapter, however, boil down to one central idea: *Build a culture full of people who take disciplined action within the three circles, fanatically consistent with the Hedgehog Concept.*

More precisely, this means the following:

1. Build a culture around the idea of freedom and responsibility, within a framework.
2. Fill that culture with self-disciplined people who are willing to go to extreme lengths to fulfill their responsibilities.
3. Don't confuse a culture of discipline with a tyrannical disciplinarian.
4. 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.

Freedom (and Responsibility) Within A Framework: The good-to-great companies built a consistent system with clear constraints, but they also gave people freedom and responsibility within the framework of that system. They hired self-disciplined people who didn't need to be managed, and then managed the system, not the people.

In a sense, much of this book is about creating a culture of discipline. It all starts with disciplined *people*. The transition begins not by trying to discipline the wrong people into the right behaviors, but by getting self-disciplined people on the bus in the first place. Next we have discipline *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.

Fanatical Adherence to the Hedgehog Concept: The good-to-great companies at their best followed a simple mantra: "Anything that does not fit with our Hedgehog Concept, we will not do. 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."

In contrast, we found a lack of discipline to stay within the three circles as a key factor in the demise of nearly all the comparison companies. Every comparison either (1) lacked the discipline to understand its three circles or (2) lacked the discipline to stay within the three circles. They failed to grasp a simple paradox: The more an organization has the discipline to stay within its three circles, the more it will have attractive opportunities for growth.

Start 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.

In studying the companies, we learned that "being right" just isn't that hard if you have all the pieces in place. If you have Level 5 leaders who get the right people on the bus, if you confront the brutal facts of reality, if you create a climate where the truth is heard, if you have a Council and work within the three circles, if you frame all decisions in the context of a crystalline Hedgehog Concept, if you act from understanding, not bravado – if you do all these things, then you are likely to be right on the big decisions. 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?

Chapter 6 Summary – 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 within 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 a 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 the 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.
- 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.

Chapter 7 – Technology Accelerators:

The central point of this chapter is when used right, technology becomes an accelerator of momentum, not a creator of it. The good-to-great companies never began their transitions with pioneering technology, for the simple reason that you cannot make good use of technology until you know which technologies are relevant.

To make technology productive in a transformation from good to great means asking the following questions. Does the technology fit directly with you 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 is 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.

Indeed, the big point of this chapter is not about technology per se. 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 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.

Chapter 7 Summary – Technology Accelerators – Key Points

- Good-to-great organizations think differently about technology and technological change than mediocre ones.
- Good-to-great organizations 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 comparisons for free, and the comparisons 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 unrealized 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 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.

Chapter 8 – The Flywheel and the Doom Loop:

Picture a huge, heavy flywheel – a massive metal disk mounted horizontally on an axle, about thirty 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 . . . 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 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.

Now suppose someone came along and asked, "What was the one big push that caused this thing to go so fast?"

You wouldn't be able to answer; it's just a nonsensical question. Was it the first push? The second? The fifth? The hundredth? No! It was all of them added together in an overall accumulation of effort applied in a consistent direction. Some pushes may have been bigger than others, but any single heave – no matter how large – reflects a small fraction of the entire cumulative effect upon the flywheel.

Buildup and Breakthrough: 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 transformation 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!* 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.

Not Just a Luxury of Circumstance: It's important to understand that following the buildup-breakthrough flywheel model is not just a luxury of circumstance. People who say, "Hey, but we've got constraints that prevent us from taking this longer-term approach," should keep in mind that the good-to-great companies followed this model no matter how dire the short-term circumstances.

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.

When you let the flywheel do the talking, you don't need to fervently communicate your goals. People can just extrapolate from the momentum of the flywheel for themselves: "Hey, if we just keep doing this, look at where we can go!" As people decide among themselves to turn the fact of potential into the fact of results, the goal almost sets itself.

Stop and think about it for a minute. What do the right people want more than anything else? They want to be part of a winning team. They want to contribute to producing visible, tangible results. They want to feel the excitement of being involved in something that just flat-out works. When the right people see a simple plan born of confronting the brutal facts – a plan developed from understanding, not bravado – they are more likely to say, "That'll work. Count me in." When they see the monolithic unity of the executive team behind the simple plan and selfless, dedicated qualities of Level 5 leadership, they'll drop their cynicism. When people begin to feel the magic of momentum – when they begin to see tangible results, when they feel the flywheel beginning to build speed – that's when the bulk of people line up to throw their shoulders against the wheel and push.

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 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 Misguided Use of Acquisitions: Why did the good-to-great have a substantially higher success rate with acquisitions, especially major acquisitions? The key to their success was that their big acquisitions generally took place after development of the Hedgehog Concept and after the flywheel had built significant momentum. They used acquisitions as an accelerator of flywheel momentum, not a creator of it.

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 is *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.

Chapter 8 – The Flywheel and the Doom Loop – Key Points

- Good-to-great transformations often look 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 on 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 buildup 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, the 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 buildup 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 from 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.

Good to Great Summary:

It all starts with Level 5 leaders, who naturally gravitate toward the flywheel model. They are less interested in flashy programs that make it look like they are *Leading* with a capital *L*. They're more interested in the quite, deliberate process of pushing on the flywheel to produce *Results* with a capital *R*.

Getting the right people on the bus, the wrong people off the bus, and the right people in the right seats – these are all crucial steps in the early stages of buildup, very important pushes on the flywheel. Equally important is to remember the Stockdale Paradox: "We're not going to hit breakthrough by Christmas, but if we keep pushing in the right direction, we will eventually hit breakthrough." This process of confronting the brutal facts helps you see the obvious, albeit difficult, steps that must be taken to turn the flywheel. Faith in the endgame helps you live through the months or years of buildup.

Next, when you attain deep understanding about the three circles of your Hedgehog Concept and begin to push in the direction consistent with that understanding, you hit breakthrough momentum and accelerate with key accelerators, chief among them pioneering the application of technology tied directly back to your three circles. Ultimately, to reach breakthrough means having the discipline to make a series of good decisions consistent with you Hedgehog Concept – disciplined action, following from disciplined people who exercise disciplined thought. That's it. That's the essence of the breakthrough process.

In short, if you diligently and successfully apply each concept in the framework, and you continue to push in a consistent direction on the flywheel, accumulating momentum step by step and turn by turn, you will eventually reach breakthrough.

It might not happen today, or tomorrow, or next week. It might not even happen next year. But it will happen.

And when it does, you will face an entirely new set of challenges: how to accelerate momentum in response to every-rising expectations, and how to ensure that the flywheel continues to turn long into the future. In short, your challenge will no longer be how to go from good to great, but how to go from great to enduring great.

Message from Gary Tomlinson:

I hope that you enjoyed this book report. It is important for you to understand this book report should not take the place of you reading *Good to Great*. This is a must read for leaders, at every level, of an organization.

First, I believe it's no harder to build something *great* than to build something *good*. I'm sure that it might be statistically more rare to reach greatness, but it does not require more suffering than perpetuating mediocrity. In fact, it involves less suffering, and perhaps even less work.

There is great solace in the simple fact of *clarity* – about what is vital, and what is not.

Indeed, the point of *Good to Great* is not that we should "add" these findings to what we are already doing and make ourselves even more overworked. No, the point is to realize that much of what we're doing is at best a waste of energy. If we organized the majority of work time around applying these principles, and pretty much ignored or stopped doing everything else, our lives would be simpler and our results vastly improved.

Get the book! Read the book! Apply the book!

You can engage Gary at gary@garyetomlinson.com. To read his other book reports or book reviews visit his website at www.garyetomlinson.com.