



## Good to Great

Why Some Companies Make the Leap ... and Others Don't

Jim Collins  
HarperBusiness, 2001  
First Edition: 2001

Jim Collins explains why some firms go from *Good to Great* and stay great – and why others don't.

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Curious about *Good to Great*? Read our review below. We're still awaiting the copyright holder's go-ahead to summarize this book in our usual summary format. In the meantime, we hope you'll find our review just as helpful.

## Review

### Elusive Greatness

When this now-classic manual first appeared in 2001, it rapidly became one of the most popular business publications of all time. Prolific business author and consultant Jim Collins, a foremost analyst of how to build and sustain a business, also wrote *How the Mighty Fail* and *Managing the Small to Mid-Sized Company*, and co-wrote *Great by Choice* and *Built to Last*, another bestseller.

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Here he pursues one basic question: "Can a good company become a great company and, if so, how?" The principles of his "good-to-great" formula still hold up, but interestingly, many of the companies he and his research team identified as great didn't last. Why is that? Clearly, Collins' good-to-great tenets identify sound management practices: Hire the right people, specify your purpose, focus on results and make the tough decisions – the basic precepts now taught in any business management course. Yet unpredictable or unquantifiable forces, such as cumbersome bureaucracy, CEO ego, unanticipated markets and economic change, can push many successful firms off the cliff. They slide from great to good to bad to out of business. Despite the age of this classic business manual, a read of Collins's principles could help forestall that fall.

### Fail or Thrive

Collins's remarkably popular books share a common theme: how and why businesses fail or thrive. That's his area of study, and he draws deeply on his research to produce in-depth examinations of the forces that sustain or undermine businesses. Collins writes, as you might expect, like a business consultant. The readers most likely to relish his unadorned, commonsense style

*Super-hero CEOs do not make companies great.*

are businesspeople. But his generally pedestrian prose doesn't keep him from producing memorable, pithy aphorisms like, "While you can buy your way to growth, you absolutely cannot buy your way to greatness."

Anyone seeking ideas about building a top-flight organization with a culture to match can gain wisdom from Collins's way of thinking and presenting information.

### **One Thousand Four Hundred and Thirty-Five**

Collins and his researchers sifted through 1,435 Fortune 500 companies to find the few that met their study's criteria for greatness, which were: "15-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next 15 years." The 11 companies that made the grade in 2001 were Abbott, Circuit City, Fannie Mae, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens and Wells Fargo. Researchers directly compared these companies with 11 firms in the same industries that had similar resources and challenges but failed to become great. They also compared their 11 winners with six firms that achieved greatness for a time, but didn't sustain it.

The researchers conducted an in-depth analysis of each great company – including interviews with its executives and CEOs and a close examination of its financial records, acquisitions, compensation plans, business strategies and corporate culture. Researchers were struck by the factors their research negated. For example, having a famous superhero CEO doesn't make a company great, and executive compensation doesn't correlate with corporate achievement.

Collins structures the path of good-to-great firms as "a process of buildup followed by breakthrough" in three stages of corporate development. Stage 1, "disciplined people," requires "Level 5 Leadership," featuring professionally driven, humble leaders who put corporate results ahead of personal success, accept responsibility and choose great successors. Stage 2, "disciplined thought," requires leaders to "confront the brutal facts." Here, Collins says, executives must ask hard questions, make fact-based decisions and accept the truth derived by using four protocols: "Lead with questions, not answers"; "engage in dialogue and debate, not coercion"; "conduct autopsies without blame"; and "build red-flag mechanisms" to alert you to data you can't ignore.

During Collins' Stage 3, "disciplined action," companies inculcate a "culture of discipline." Successful start-ups often fall into a hazardous cycle. Early on, he says, creativity and passion fuel growth. But growth brings the need to organize operations, with solid staffing, production processes and corporate systems – all of which stifle the creativity that built the enterprise in the first place. Instead of falling down that rabbit hole, Collins advises, create a disciplined managerial framework and promote creativity within it.

Strategy doesn't ensure greatness, nor does technology or acquisitions. Great companies thrive in pedestrian industries. Greatness doesn't result from big launch events, motivational programs or management upheavals. Collins found that the transformation from "Good to Great" evolves in a careful, deliberate cycle of development followed by a leap forward. This process functions within the "Flywheel," a holistic frame of accumulated "effort applied in a consistent direction."

### **"The Flywheel and the Doom Loop"**

When CEO Alan Wurtzel took over Circuit City in 1973, it was near bankruptcy. He and his team developed the company's warehouse-retailing concept slowly. In the late 1970s, they converted its traditional stereo and electronics stores into superstores. The superstore concept took hold and built momentum through the 1980s and '90s. The Circuit City pattern of development and growth offers a good-to-great paradigm. Its success sprang from a gradual buildup, the cumulative

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*The Circuit City pattern of development and growth offers a good-to-great paradigm. Its success sprang from a gradual buildup, the cumulative effect of small victories and good decisions made over time.*

*What can you do better than any other company – and what are you unable to do better?*

effect of small victories and good decisions made over time. It never had a meteoric rise or a “miracle moment” – such as a single transformational development. This pattern of steady “buildup and breakthrough” is analogous to a flywheel that builds momentum. This “flywheel effect” is circular and builds on the “accumulation of effort applied in a consistent direction.” Companies that Collins compared with good-to-great corporations but that didn’t make the grade, fell into the doom loop. They launched new “miracle” programs, tried to buy success with acquisitions or mergers, and underwent frequent restructuring and leadership change.

### “The Hedgehog Concept”

A Greek fable pits a fox against a hedgehog. The fox is cunning, smart and sneaky; the hedgehog is plodding and slow. But no matter how much ingenuity the fox shows in its attack, the hedgehog rolls into a ball with its spikes sticking outward. Finally, the fox leaves, defeated. The hedgehog knows its strengths and sticks to what it does best.

Good-to-great companies are like hedgehogs, concentrating on what they do better than any other organization. For example, Walgreens left Eckerd, a rival drugstore chain, in the dust between 1975 and 2000 by focusing on one hedgehog concept with clarity and consistency: Walgreens sought to become America’s most convenient drugstore. It chose high-traffic sites and pioneered the idea of drive-through prescription pickups. Walgreens married its focus on convenience with its goal of increasing its “profit per customer visit.” Its zeal in these two areas fueled its rise to the top. Collins says you, too, can find your hedgehog concept by considering what asset emerges at the intersection of three ideas: What can you do better than any other company – and what are you unable to do better? How do you make money? What work evokes your heartfelt dedication?

The steps an organization takes in alignment with its hedgehog concept lead to both big and small accomplishments. These advances build a record of visible results, which energize everyone involved. Enthusiastic, united employees push the flywheel harder and faster as the firm gains strength and momentum. On the road to greatness, the flywheel builds momentum through consistency and commitment to the focused hedgehog concept.

### On Target

At times, Collins’s workmanlike language can obscure how insightful, on-target, unsentimental and practicable his discoveries are. Collins doesn’t push a particular theme or theory. Unlike many business authors, Collins’s brand is not himself. He became a widely respected best-selling author by carefully researching the questions he explores and presenting his perceptive answers with no axe to grind. That is a rare and welcome approach. The simplicity with which Collins explains complex forces, ideas and solutions make his insights all the more valuable, memorable and a template for all businesses, large and small, to follow.

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## About the Author

Consultant **Jim Collins** also wrote *How the Mighty Fail* and *Managing the Small to Mid-Sized Company* and co-authored, among other books, *Great by Choice* and *Beyond Entrepreneurship*. He co-authored the business bestseller *Built to Last: Successful Habits of Visionary Companies* and contributes to the *Harvard Business Review* and *Businessweek*.

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