Notebook - Good to Great: 1

Collins, Jim

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> That’s what makes death so hard—unsatisfied curiosity.

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> Good is the enemy of great.

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> Few people attain great lives, in large part because it is just so easy to settle for a good life.

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> series of weekly research-team debates.

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> Larger-than-life, celebrity leaders who ride in from the outside are negatively correlated with taking a company from good to great.

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> focused equally on what not to do and what to stop doing.

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> Technology can accelerate a transformation, but technology cannot cause a transformation. Mergers and acquisitions play virtually no role in igniting a transformation from good to great;

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> paid scant attention to managing change, motivating people, or creating alignment. Under the right

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> conditions, the problems of commitment, alignment, motivation, and change largely melt away.

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> stages: disciplined people, disciplined thought, and disciplined action.

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> Level 5 Leadership. We were surprised, shocked really, to discover the type of leadership required for turning a good company into a great one. Compared to high-profile leaders with big personalities who make headlines and become celebrities, the good-to-great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy—these leaders are a paradoxical blend of personal humility and professional will. They are more like Lincoln and Socrates than Patton or Caesar. First Who . . . Then What. We expected that good-to-great leaders would begin by setting a new vision and strategy. We found instead that they first got the right people on the bus, the wrong people off the bus, and the right people in the right seats—and then they figured out where to drive it. The old adage "People are your most important asset" turns out to be wrong. People are not your most important asset. The right people are. Confront the Brutal Facts (Yet Never Lose Faith). We learned that a former prisoner of war had more to teach us about what it takes to find a path to greatness than most books on corporate strategy. Every good-to-great company embraced what we came to call the Stockdale Paradox: You must maintain unwavering faith that you can and will prevail in the end, regardless of the difficulties, AND at the same time have the discipline to confront the most brutal facts of your current reality, whatever they might be. The Hedgehog Concept (Simplicity within the Three Circles). To go from good to great requires transcending the curse of competence. Just because something is your core business—just because you've been doing it for years or perhaps even decades—does not necessarily mean you can be the best in the world at it. And if you cannot be the best in the world at your core business, then your core business absolutely cannot form the basis of a great company. It must be replaced with a simple concept that reflects deep understanding of three intersecting circles. A Culture of Discipline. All companies have a culture, some companies have discipline, but few companies have a culture of discipline. When you have disciplined people, you don't need hierarchy. When you have disciplined thought, you don't need bureaucracy. When you have disciplined action, you don't need excessive controls. When you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance. Technology Accelerators. Good-to-great companies think differently about the role of technology. They never use technology as the primary means of igniting a transformation. Yet, paradoxically, they are pioneers in the application of carefully selected technologies. We learned that technology by itself is never a primary, root cause of either greatness or decline. The Flywheel and the Doom Loop. Those who launch revolutions, dramatic change programs, and wrenching restructurings will almost certainly fail to make the leap from good to

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> 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 miracle moment. Rather, the process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond. From Good to Great to Built to Last. In an ironic twist, I now see Good to Great not as a sequel to Built to Last, but as more of a prequel. This book is about how to turn a good organization into one that produces sustained great results. Built to Last is about how you take a company with great results and turn it into an enduring great company of iconic stature. To make that final shift requires core values and a purpose beyond just making money combined with the key dynamic of preserve the core / stimulate progress.

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> “The best students are those who never quite believe their professors.”

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> “One ought not to reject the data merely because one does not like what the data implies.”

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> You can accomplish anything in life, provided that you do not mind who gets the credit. —HARRY S. TRUMAN1

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> 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.

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> Humility + Will = Level 5

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> Abraham Lincoln

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> Yet those who mistook Mockler's reserved nature for weakness found themselves beaten in the end.

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> 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.

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> the comparison leaders, concerned more with their own reputation for personal greatness, often failed to set the company up for success in the next generation. After all, what better testament to your own personal greatness than that the place falls apart after you leave?

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> 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.

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> determination to do whatever needs to be done to make the company great.

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> one of the key causes of Abbott's mediocrity: nepotism.

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> B level family members holding key positions.

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> sheer workmanlike diligence.

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> Level 5 leaders look out the window to apportion credit to factors outside themselves when things go well (and if they cannot find a specific person or event to give credit to, they credit good luck). At the same time, they look in the mirror to apportion responsibility, never blaming bad luck when things go poorly.

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> Level 5 Leadership. The two sides of the leadership are titled, “Professional Will” and “Personal Humility.”

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> Look for situations where extraordinary results exist but where no individual steps forth to claim excess credit. You will likely find a potential Level 5 leader at work.

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> Chapter Summary
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> Level 5 Leadership Key Points Every good-to-great company had Level 5 leadership during the 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 the comparison companies had leaders with gargantuan personal egos that contributed to the demise or continued 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 CEOs often did just the opposite—they

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kindle

> 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 CEOs came from inside the company, whereas the comparison companies tried outside CEOs 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.

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> 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.”

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> if you begin with “who,” rather than “what,” you can more easily adapt to a changing world.

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> To be clear, the main point of this chapter is not just about assembling the right team—that’s nothing new. The main point is to first get the right people on the bus (and the wrong people off the bus) before you figure out where to drive it. The second key point is the degree of sheer rigor needed in people decisions in order to take a company from good to great.

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> "I don't know where we should take this company, but I do know that if I start with the right people, ask them the right questions, and engage them in vigorous debate, we will find a way to make this company great."

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> the group dialogue and shared insights of the talented executive team.

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> the good-to-great executives received slightly less total cash compensation ten years after the transition than their counterparts at the still-mediocre comparison companies!

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> It's not how you compensate your executives, it's which executives you have to compensate in the first place. If you have the right executives on the bus, they will do everything within their power to build a great company, not because of what they will "get" for it, but because they simply cannot imagine settling for anything less.

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> The right people will do the right things and deliver the best results they're capable of, regardless of the incentive system. 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.

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> The Nucor system did not aim to turn lazy people into hard workers, but to create an environment where hardworking people would thrive and lazy workers would either jump or get thrown right off the bus.

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

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> Rigorous, Not Ruthless

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> 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.

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

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> Some of the comparison companies had an almost chronic addiction to layoffs and restructurings.42

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> How to Be Rigorous

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> Practical Discipline #1: When in doubt, don’t hire—keep looking.

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> Those who build great companies understand that the ultimate throttle on growth for any great

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> 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.

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> When asked to name the top five factors that led to the transition from mediocrity to excellence, Bruckart said, “One would be people. Two would be people. Three would be people. Four would be people. And five would be people. A huge part of our transition can be attributed to our discipline in picking the right people.”

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> Same strategy, different people, different results. Practical Discipline #2: When you know you need to make a people change, act. The moment you feel the need to tightly manage someone, you’ve made a hiring mistake. The best people don’t need to be managed.

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> Letting the wrong people hang around is unfair to all the right people, as they inevitably find themselves compensating for the inadequacies of the wrong people. Worse, it can drive away the best people. Strong performers are intrinsically motivated by performance, and when they see their efforts impeded by carrying extra weight, they eventually become frustrated.

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> The good-to-great companies showed the following bipolar pattern at the top management level: People either stayed on the bus for a long time or got off the bus in a hurry. In other words, the good-to-great companies did not churn more, they churned better.

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> “Every minute devoted to putting the proper person in the proper slot is worth weeks of time later.”

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

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

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> 'We need all the talented managers we can get. We keep them.'"

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> A Level 5 executive team member does not blindly acquiesce to authority and is a strong leader in her own right, so driven and talented that she builds her arena into one of the very best in the world.

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> You need executives, on the one hand, who argue and debate—sometimes violently—in pursuit of the best answers, yet, on the other hand, who unify fully behind a decision, regardless of parochial interests.

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> is it possible to build a great company and also build a great life? Yes.

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> He was so good at assembling the right people around him, and putting the right people in the right slots, that he just didn't need to be there all hours of the day and night. That was Colman's whole secret to success and balance."

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> Members of the good-to-great teams tended to become and remain friends for life.

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> 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.

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> Chapter Summary
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> 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. The key point of this chapter is not just the idea of getting the right people on the team. The key point is that “who” questions come before “what” decisions—before vision, before strategy, before organization structure, before tactics. First who, then what—as a rigorous discipline, consistently applied. The comparison companies frequently followed the “genius with a thousand helpers” model—a genius leader who sets a vision and then enlists a crew of highly capable “helpers” to make the vision happen. This model fails when the genius departs. The good-to-great leaders were rigorous, not ruthless, in people decisions. They did not rely on layoffs and restructuring as a primary strategy for improving performance. The comparison companies used layoffs to a much greater extent. We uncovered three practical disciplines for being rigorous in people decisions: When in doubt, don’t hire—keep looking. (Corollary: A company should limit its growth based on its ability to attract enough of the right people.) 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.) 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.

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> A&P then began a pattern of lurching from one strategy to another, always looking for a single-stroke solution to its problems. It held pep rallies, launched programs, grabbed fads, fired CEOs, hired CEOs, and fired them yet again.

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> Sure, there was some skepticism at first. But once we looked at the facts, there was really no question about what we had to do. So we just did it."

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> 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.) When, as in the Kroger

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

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> continually refined the path to greatness with the brutal facts of reality. "When you turn over rocks and look at all the squiggly things underneath, you can either put the rock down, or you can say, 'My job is to turn over rocks and look at the squiggly things,' even if what you see can scare the hell out of you."25

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> The Addressograph case, especially in contrast to Pitney Bowes, illustrates a vital point. Strong, charismatic leaders like Roy Ash can all too easily become the de facto reality driving a company.

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> the top leader led with such force or instilled such fear that people worried more about the leader—what he would say, what he would think, what he would do— than they worried about external

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> reality and what it could do to the company.

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> 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.

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> personality, it is worthwhile to consider the idea that charisma can be as much a liability as an asset.

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> 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.”

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> 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.

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> 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.

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> 1. Lead with questions, not answers.

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> he began with a remarkable answer to the question of where to take the company: I don't know.

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> Instead, once he put the right people on the bus, he began not with answers, but with questions.

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> Wurtzel stands as one of the few CEOs in a large corporation who put more questions to his board members than they put to him.

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> "They used to call me the prosecutor, because I would home in on a question," said Wurtzel. "You know, like a bulldog, I wouldn't let go until I understood. Why, why, why?"

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> leaders in each of the good-to-great transitions operated with a somewhat Socratic style. Furthermore, they used questions for one and only one reason: to gain understanding.

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> era, they said that they spent much of the time "just trying to understand."

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> "So, what's on your mind?" "Can you tell me about that?" "Can you help me understand?" "What should we be worried about?"

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> 2. Engage in dialogue and debate, not coercion.

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> a Level 5 leader,

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> got the right people on the bus, building a remarkable team of people

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> he played the role of Socratic moderator in a series of raging debates.

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> a climate of debate, wherein the company's strategy "evolved through many agonizing arguments and fights."40

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> 3. Conduct autopsies, without blame.

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> clinical analysis of the mistake, its implications, and its lessons.

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> no one pointed fingers to single out blame.

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> "I will take responsibility for this bad decision. But we will all take responsibility for extracting the maximum learning from the tuition we've paid."

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> 4. Build “red flag” mechanisms.

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> Indeed, 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.

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> short pay

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> Short pay gives the customer full discretionary power to decide whether and how much to pay on an invoice based upon his own subjective evaluation of how satisfied he feels with a product or service.

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> you’re a fully developed Level 5 leader, you might not need red flag mechanisms. But if you are not yet a Level 5 leader, or if you suffer the liability of charisma, red flag mechanisms give you a practical and useful tool for turning information into information that cannot be ignored and for creating a climate where the truth is heard.*

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> Kimberly-Clark, on the other hand, viewed competing against Procter & Gamble not as a liability, but as an asset. Darwin Smith and his team felt exhilarated by the idea of going up against the best, seeing it as an opportunity to make Kimberly-Clark better and stronger.

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> In confronting the brutal facts, the good-to-great companies left themselves stronger and more resilient, not weaker and more dispirited.

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> “hardiness factor.”

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> never had the goal to merely survive but to prevail in the end as a great company.

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> In every case, the management team responded with a powerful psychological duality. On the one hand, they stoically accepted the brutal facts of reality. On the other hand, they maintained an unwavering faith in the endgame, and a commitment to prevail as a great company despite the brutal facts. We came to call this duality the Stockdale Paradox.

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> “This is a very important lesson. You must never confuse faith that you will prevail in the end—which you can never afford to lose—with the discipline to confront the most brutal facts of your current reality, whatever they might be.”

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> “We’re not getting out by Christmas; deal with it!”

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> Life is unfair—sometimes to our advantage, sometimes to our disadvantage.

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> The Stockdale Paradox Retain faith that you will prevail in the end, regardless of the difficulties. AND at the same time Confront the most brutal facts of your current reality, whatever they might be.

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> Chapter Summary
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> Confront The Brutal Facts
>
> (Yet Never Lose Faith)

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> confronting the brutal facts of their current reality.

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> start with an honest and diligent effort to determine the truth of your situation,

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> an honest confrontation of the brutal facts.

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> create a culture wherein people have a tremendous opportunity to be heard and, ultimately, for the truth to be heard.

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> Lead with questions, not answers. Engage in dialogue and debate, not coercion. Conduct autopsies, without blame. Build red flag mechanisms that turn information into information that cannot be ignored.

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> hit the realities of their situation head-on.

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> 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.

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> Charisma can be as much a liability as an asset,

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> Spending time and energy trying to “motivate” people is a waste of effort.

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> 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.

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> parable: “The fox knows many things, but the hedgehog knows one big thing.”

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> 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 principle or concept that unifies and guides everything.

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> Those who built the good-to-great companies were, to one degree or another, hedgehogs.

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> Those who led the comparison companies tended to be foxes, never gaining the clarifying

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> advantage of a Hedgehog Concept, being instead scattered, diffused, and inconsistent.

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> lurched after growth for growth's sake.

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> all the good-to-great companies attained a very simple concept that they used as a frame of reference for all their decisions, and this understanding coincided with breakthrough results.

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> More precisely, a Hedgehog Concept is a simple, crystalline concept that flows from deep understanding about the intersection of the following three circles: What you can be the best in the world at (and, equally important, what you cannot be the best in the world at).

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> What drives your economic engine.

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> discovered the single denominator—profit per x—that had the greatest impact on their economics.

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> What you are deeply passionate about.

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> "They stick with what they understand and let their abilities, not their egos, determine what they attempt."

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> 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.

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> faith side of the Stockdale Paradox (There must be a way for us to prevail as a great company, and we will find it!),

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> Clearly, a Hedgehog Concept is not the same as a core competence. You can have competence at something but not necessarily have the potential to be the best in the world at it.

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> 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're making money and generating growth—doesn't necessarily mean we can become the best at it."

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> This list does not show what the companies were already best in the world at when they began their transitions (most of these companies weren't the best at anything); rather, it shows what they came to understand they could become best in the world at.

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> consistent, superior execution of the model.

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> The good-to-great companies frequently produced spectacular returns in very unspectacular industries.

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> The central point is that 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.

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> the notion of a single “economic denominator.”

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> 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.

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> profit per employee.

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

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> profit per mortgage risk level, not per mortgage

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> profit per ton of finished steel.

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> denominator, but for the sake of gaining insight that ultimately leads to more robust and sustainable economics.

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> Most of the top executives at Philip Morris were passionate consumers of their own products.

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> Reynolds executives eventually lost passion for anything except making themselves rich through a leveraged buyout.26

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> 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.

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> The Triumph of Understanding
>
> Over Bravado

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> From then on, each juncture requires less deliberation, and you can shift from crawl to walk, and from walk to run.

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> What’s so striking about the comparison companies is that—for all their change programs, frantic gesticulations, and charismatic leaders—they rarely emerged from the fog. They would try to run, making bad decisions at forks in the road, and then have to reverse course later. Or they would veer off the trail entirely, banging into trees and tumbling down ravines.(Oh, but they were sure doing it with speed and panache!)

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> Second, they set their goals and strategies more from bravado than from understanding.

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> an obsession with growth without the benefit of a Hedgehog Concept.

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> “Growth!” is not a Hedgehog Concept. Rather, if you have the right Hedgehog Concept and make decisions relentlessly consistent with it, you will create such momentum that your main problem will not be how to grow, but how not to grow too fast.

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> It took about four years on average for the good-to-great companies to clarify their Hedgehog Concepts. 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.

Page 114 | Highlight

> 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.

Page 116 | Highlight

> 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.

Page 116 | Highlight

> 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.

kindle

Page 116 | Highlight

> (“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!”),

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Page 116 | Highlight

> “Yep, we could be the best at that” was stated as the recognition of a fact, no more startling than observing that the sky is blue or the grass is green. When you get your Hedgehog Concept right, it has the quiet ping of truth, like a single, clear, perfectly struck note hanging in the air in the hushed silence of a full auditorium at the end of a quiet movement of a Mozart piano concerto. There is no need to say much of anything; the quiet truth speaks for itself.

Page 118 | Highlight

> Chapter Summary
>
> Hedgehog Concept
>
> (Simplicity Within The Three Circles) Key Points To go from good to great requires a deep understanding of three intersecting circles translated into a simple, crystalline concept (the Hedgehog Concept): THREE CIRCLES OF THE HEDGEHOG CONCEPT The key is to understand what your 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 severe standard than a core competence. You might have a competence but not necessarily have the capacity to be truly the best in the world at that competence. Conversely, there may be activities at which you 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.

Page 121 | Highlight

> In response, someone (often a board member) says, “It’s time to grow up. This place needs some professional management.” The company begins to hire MBAs and seasoned executives from blue-chip companies. Processes, procedures, checklists, and all the rest begin to sprout up like weeds.

Page 121 | Highlight

> an executive class with special perks begins to appear. “We” and “they” segmentations appear—just like in a real company.

Page 121 | Highlight

> the purpose of bureaucracy is to compensate for incompetence and lack of discipline—a problem that largely goes away if you have the right people in the first place. 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.

Page 121 | Highlight

> Avoid bureaucracy and hierarchy and instead create a culture of discipline.

Page 123 | Highlight

> a remarkable financial officer named Bernard H. Semler. Semler did not see his job as a traditional financial controller or accountant.

Page 123 | Highlight

> Responsibility Accounting, wherein every item of cost, income, and investment would be clearly

Page 123 | Highlight Continued

> identified with a single individual responsible for that item.4

Page 123 | Highlight

> it used rigor and discipline to enable creativity and entrepreneurship.

Page 123 | Highlight

> “[It] was exemplary at having both financial discipline and the divergent thinking of creative work. We used financial discipline as a way to provide resources for the really creative work.”

Page 123 | Highlight

> We recognized that planning is priceless, but plans are useless,” said one Abbott executive.)

Page 123 | Highlight

> Build a culture full of people who take disciplined action within the three circles, fanatically consistent with the Hedgehog Concept.

Page 124 | Highlight

> Don’t confuse a culture of discipline with a tyrannical disciplinarian.

Page 124 | Highlight

> create a “stop doing list” and systematically unplug anything extraneous.

Page 126 | Highlight

> You’ve got to have management and people who believe in the system and who do whatever is necessary to make the system work.

Page 126 | Highlight

> 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.

Page 126 | Highlight

> But disciplined action without self-disciplined people is impossible to sustain, and disciplined action without disciplined thought is a recipe for disaster. Indeed, discipline by itself will not produce great results.

Page 126 | Highlight

> find plenty of organizations in history that had tremendous discipline and that marched right into disaster, with precision and in nicely formed lines.

Page 127 | Highlight

> disciplined, rigorous, dogged, determined, diligent, precise, fastidious, systematic, methodical, workmanlike, demanding, consistent, focused, accountable, and responsible.

Page 128 | Highlight

> Everyone would like to be the best, but most organizations lack the discipline to figure out with egoless clarity what they can be the best at and the will to do whatever it takes to turn that potential into reality. They lack the discipline to rinse their cottage cheese.

Page 128 | Highlight

> He froze executive salaries for two years

Page 128 | Highlight

> He shut the executive dining room and replaced it with a college dorm food-service caterer.

Page 128 | Highlight

> He closed the executive elevator, sold the corporate jets, and banned green plants from the executive suite as too expensive to water.

Page 130 | Highlight

> Whereas the good-to-great companies had Level 5 leaders who built an enduring culture of discipline, the unsustained comparisons had Level 4 leaders who personally disciplined the organization through sheer force.

Page 134 | Highlight

> disciplined diversification.

Page 134 | Highlight

> Every comparison either (1) lacked the discipline to understand its three circles or (2) lacked the discipline to stay within the three circles.

Page 136 | Highlight

> a great company is much more likely to die of indigestion from too much opportunity than starvation from too little. The challenge becomes not opportunity creation, but opportunity selection.

Page 136 | Highlight

> When I think of the millions of dollars spent by people at the top of the management hierarchy on efforts to motivate people who are continually put down by that hierarchy, I can only shake my head in wonder.

Page 138 | Highlight

> Bethlehem declined first and foremost because it was a culture wherein people focused their efforts on negotiating the nuances of an intricate social hierarchy, not on customers, competitors, or changes in the external world.

Page 140 | Highlight

> In a good-to-great transformation, budgeting is a discipline to decide which arenas should be fully funded and which should not be funded at all.

Page 142 | Highlight

> Chapter 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 with the three circles. Bureaucratic cultures arise to compensate for incompetence and lack of discipline, which arise from having the wrong people on the bus in the first place. If you get the right people on the bus, and the wrong people off, you don't need stultifying bureaucracy. A culture of discipline involves a duality. On the one hand, it requires people who adhere to a consistent system; yet, on the other hand, it gives people freedom and responsibility within the framework of that system. A culture of discipline is not just about action. It is about getting disciplined people who engage in disciplined thought and who then take disciplined action. The good-to-great companies appear boring and pedestrian looking in from the outside, but upon closer inspection, they're full of people who display extreme diligence and a stunning intensity (they "rinse their cottage cheese"). Do not confuse a culture of discipline with a tyrant who disciplines—they are very different concepts, one highly functional, the other highly dysfunctional. Savior CEOs who personally discipline through sheer force of personality usually fail to produce sustained results. The single most important form of discipline for sustained results is fanatical adherence to the Hedgehog Concept and the willingness to shun opportunities that fall outside the three circles. Unexpected Findings The more an organization has the discipline to stay within its three circles, with almost religious consistency, the more it will have opportunities for growth. The fact that something is a "once-in-a-lifetime opportunity" is irrelevant, unless it fits within the three circles. A great company will have many once-in-a-lifetime opportunities. The purpose of budgeting in a good-to-great company is not to decide how much each activity gets, but to decide which arenas best fit with the Hedgehog Concept and should be fully funded and which should not be funded at all. "Stop doing" lists are more important than "to do" lists.

Page 145 | Highlight

> "We're a crawl, walk, run company,"

Page 147 | Highlight

> speculative bubble that burst.

Page 148 | Highlight

> used technology as a tool to accelerate momentum after hitting breakthrough,

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Page 148 | Highlight

> Walgreens' CIO (chief information officer) was a registered pharmacist by training, not a technology guru.

Page 148 | Highlight

> it was never technology per se, but the pioneering application of carefully selected technologies.

Page 153 | Highlight

> Technology was a key part of what Fannie Mae leaders called "the second wind" of the transformation and acted as an accelerating factor.

Page 153 | Highlight

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

Page 153 | Highlight

> you cannot make good use of technology until you know which technologies are relevant.

Page 153 | Highlight

> 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.

Page 153 | Highlight

> disciplined people, who engage in disciplined thought, and who then take disciplined action.

Page 155 | Highlight

> “People don’t know what they don’t know,” they said. “And they’re always afraid that some new technology is going to sneak up on them from behind and knock them on the head. They don’t understand technology, and many fear it. All they know for sure is that technology is an important force of change, and that they’d better pay attention to it.”

Page 156 | Highlight

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

Page 156 | Highlight

> unenlightened and ineffective management.

Page 156 | Highlight

> technology’s role was as an accelerator of Bethlehem’s demise, not the cause of it.

Page 158 | Highlight

> Technology cannot turn a good enterprise into a great one, nor by itself prevent disaster.

Page 159 | Highlight

> 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 deep understanding of how it links to a clear and coherent concept—technology simply accelerates your own self-created demise.

Page 160 | Highlight

> But they never talked in reactionary terms and never defined their strategies principally in response to what others were doing. They talked in terms of what they were trying to create and how they were trying to improve relative to an absolute standard of excellence.

Page 160 | Highlight

> We can be delighted, but never satisfied.”

Page 160 | Highlight

> No, those who turn good into great are motivated by a deep creative urge and an inner compulsion for sheer unadulterated excellence for its own sake. Those who build and perpetuate mediocrity, in contrast, are motivated more by the fear of being left behind.

Page 161 | Highlight

> the great ones responded like Walgreens—with calm equanimity and quiet deliberate steps forward—while the mediocre ones lurched about in fearful, frantic reaction.

Page 162 | Highlight

> Chapter 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

Page 162 | Highlight Continued

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

Page 165 | Highlight

> the end result, the good-to-great transformations never happened in one fell swoop.

Page 168 | Highlight

> Here's what's important. We've allowed the way transitions look from the outside to drive our perception of what they must feel like to those going through them on the inside. From the outside, they look like dramatic, almost revolutionary breakthroughs. But from the inside, they feel completely different, more like an organic development process.

Page 169 | Highlight

> The good-to-great companies had no name for their transformations. There was no launch event, no tag line, no programmatic feel whatsoever. Some executives said that they weren't even aware that a major transformation was under way until they were well into it. It was often more obvious to them after the fact than at the time.

Page 169 | Highlight

> 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.

Page 170 | Highlight

> simply a series of incremental changes—

Page 170 | Highlight

> The major thing that Lyle did was to say that we’re going to change beginning now, on a very deliberate basis.”

Page 172 | Highlight

> lasting transformations from good to great follow a general pattern of buildup followed by breakthrough. In some cases,

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Page 173 | Highlight

> The good-to-great companies were subject to the same short-term pressures from Wall Street as the comparison companies. Yet, unlike the comparison companies, they had the patience and discipline to follow the buildup-breakthrough flywheel model despite these pressures. And in the end, they attained extraordinary results by Wall Street’s own measure of success.

Page 173 | Highlight

> Indeed, Upjohn reminded us of a gambler, putting a lot of chips on red at Las Vegas and saying, “See, we’re investing for the future.” Of course, when the future arrived, the promised results rarely appeared.

Page 174 | Highlight

> practicing the time-honored discipline of under-promising and overdelivering.

Page 176 | Highlight

> Clearly, the good-to-great companies did get incredible commitment and alignment—they artfully managed change—but they never really spent much time thinking about it. It was utterly transparent to them. We learned that under the right conditions, the problems of commitment, alignment, motivation, and change just melt away. They largely take care of themselves.

Page 176 | Highlight

> he and his team began turning the flywheel, creating tangible evidence that their plans made sense. “We presented what we were doing in such a way that people saw our accomplishments,” said

Page 176 | Highlight Continued

> Herring. “We tried to bring our plans to successful conclusion step by step, so that the mass of people would gain confidence from the successes, not just the words.”

Page 176 | Highlight

> The good-to-great companies tended not to publicly proclaim big goals at the outset. Rather, they began to spin the flywheel—understanding to action, step after step, turn after turn. After the flywheel built up momentum, they’d look up and say, “Hey, if we just keep pushing on this thing, there’s no reason we can’t accomplish X.”

Page 177 | Highlight

> 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 almost anything else? They want to be part of a winning team.

Page 177 | Highlight

> When the right people see a simple plan born of confronting the brutal facts—a plan developed from understanding, not bravado—they are likely to say, “That’ll work. Count me in.”

Page 178 | Highlight

> a quiet, deliberate process of figuring out what needed to be done and then simply doing it,

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Page 180 | Highlight

> While the specific permutations of the doom loop varied from company to company, there were some highly prevalent patterns, two of which deserve particular note: the misguided use of acquisitions and the selection of leaders who undid the work of previous generations.

Page 180 | Highlight

> Peter Drucker once observed that the drive for mergers and acquisitions comes less from sound reasoning and more from the fact that doing deals is a much more exciting way to spend your day than doing actual work.

Page 180 | Highlight

> “When the going gets tough, we go shopping!”

Page 180 | Highlight

> used acquisitions as an accelerator of flywheel momentum, not a creator of it.

Page 181 | Highlight

> while you can buy your way to growth, you absolutely cannot buy your way to greatness. Two big mediocrities joined together never make one great company.

Page 184 | Highlight

> Sell the future, to compensate for lack of results.

Page 184 | Highlight

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

Page 186 | Highlight

> Chapter Summary
>
> 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

kindle

> haul. No matter how dramatic the end result, the good-to-great transformations never happened in one fell swoop. There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Sustainable transformations follow a predictable pattern of 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 of Wall Street were not inconsistent with following this model. The flywheel effect is not in conflict with these pressures. Indeed, it is the key to managing them.

Page 190 | Highlight

> the buildup-breakthrough flywheel

Page 192 | Highlight

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

Page 193 | Highlight

> The "HP Way,"

Page 193 | Highlight

> technical contribution, respect for the individual, responsibility to the communities in which the company operates, and a deeply held belief that profit is not the fundamental goal of a company.

Page 194 | Highlight

> they firmly believed that I was not one of them, and obviously not qualified to manage an important enterprise."

Page 194 | Highlight

> Enduring great companies don't exist merely to deliver returns to shareholders. Indeed, in a truly great company, profits and cash flow become like blood and water to a healthy body: They are absolutely essential for life, but they are not the very point of life.

Page 194 | Highlight

> We try to remember that medicine is for the patient. . . . It is not for the profits.

Page 195 | Highlight

> there are no specific "right" core values for becoming an enduring great company.

Page 195 | Highlight

> core values are essential for enduring greatness, but it doesn't seem to matter what those core values are.

Page 197 | Highlight

> Clock Building, Not Time Telling.

Page 198 | Highlight

> Genius of AND.

Page 198 | Highlight

> Core Ideology.

Page 198 | Highlight

> Preserve the Core/Stimulate Progress.

Page 202 | Highlight

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

Page 205 | Highlight

> First, I believe that it is no harder to build something great than to build something good. It might be statistically more rare to reach greatness, but it does not require more suffering than perpetuating mediocrity. Indeed, if some of the comparison companies in our study are any indication, it involves less suffering, and perhaps even less work.

Page 205 | Highlight

> Indeed, the point of this entire book 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 our 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.

Page 206 | Highlight

> We run best at the end.

Page 208 | Highlight

> building of momentum adds more energy back into the pool than it takes out. Conversely, perpetuating mediocrity is an inherently depressing process and drains much more energy out of the pool than it puts back in.

Page 208 | Highlight

> the search for meaning, or more precisely, the search for meaningful work.

Page 209 | Highlight

> You don’t need to have some grand existential reason for why you love what you’re doing or to care deeply about your work (although you might). All that matters is that you do love it and that you do care.

Page 209 | Highlight

> Indeed, the real question is not, “Why greatness?” but “What work makes you feel compelled to try to create greatness?” If you have to ask the question, “Why should we try to make it great? Isn’t success enough?” then you’re probably engaged in the wrong line of work.