

COLLINS

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GOOD TO GREAT



GOOD TO GREAT

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

JIM COLLINS
Coauthor of the bestselling
BUILT TO LAST

...and we weren't even close to the
...type—from the cult of the superhuman CEO to the
...quisitions and merger mania. It will not enable medi-
...competence. But it should enable competence to

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wait to buy.”
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...ased on years of detailed, empirical research and are
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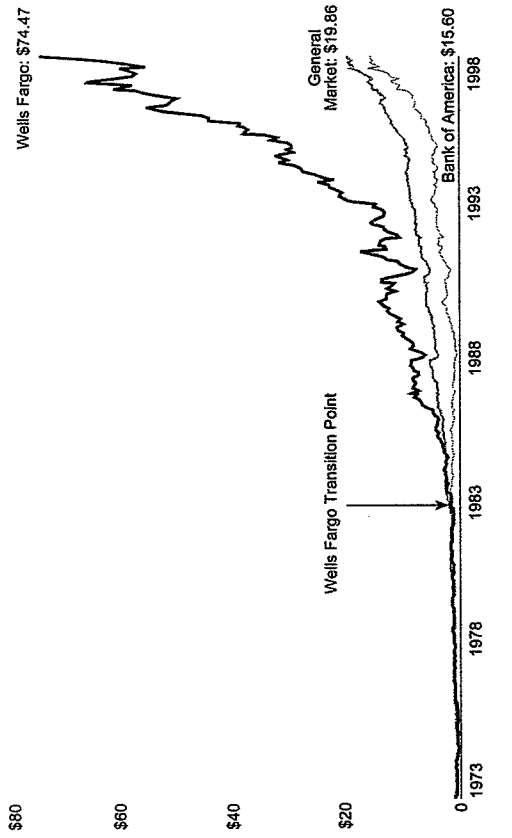
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Wells Fargo went from buildup to breakthrough results, Bank of America's cumulative stock returns didn't even keep pace with the general market.

WELLS FARGO VERSUS BANK OF AMERICA

Cumulative Value of \$1 Invested,
January 1, 1973 - January 1, 1998



Now, you might be thinking, "That's just good management—the idea of getting the right people around you. What's new about that?" On one level, we have to agree; it is just plain old-fashioned good management. But what stands out with such distinction in the good-to-great companies are two key points that made them quite different.

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.

"First who" is a very simple idea to grasp, and a very difficult idea to do—and most don't do it well. It's easy to *talk about* paying attention to

people decisions, but how many executives have the discipline of David Maxwell, who held off on developing a strategy until he got the right people in place, *while the company was losing \$1 million every single business day* with \$56 billion of loans underwater? When Maxwell became CEO of Fannie Mae during its darkest days, the board desperately wanted to know how he was going to rescue the company. Despite the immense pressure to act, to do something dramatic, to seize the wheel and start driving, Maxwell focused first on getting the right people on the Fannie Mae management team. His first act was to interview all the officers. He sat them down and said, "Look, this is going to be a very hard challenge. I want you to think about how demanding this is going to be. If you don't think you're going to like it, that's fine. Nobody's going to hate you."¹²

Maxwell made it absolutely clear that there would only be seats for A players who were going to put forth an A+ effort, and if you weren't up for it, you had better get off the bus, and get off *now*.¹³ One executive who had just uprooted his life and career to join Fannie Mae came to Maxwell and said, "I listened to you very carefully, and I don't want to do this." He left and went back to where he came from.¹⁴ In all, fourteen of twenty-six executives left the company, replaced by some of the best, smartest, and hardest-working executives in the entire world of finance.¹⁵ The same standard applied up and down the Fannie Mae ranks as managers at every level increased the caliber of their teams and put immense peer pressure upon each other, creating high turnover at first, when some people just didn't pan out.¹⁶ "We had a saying, 'You can't fake it at Fannie Mae,'" said one executive team member. "Either you knew your stuff or you didn't, and if you didn't, you'd just blow out of here."¹⁷

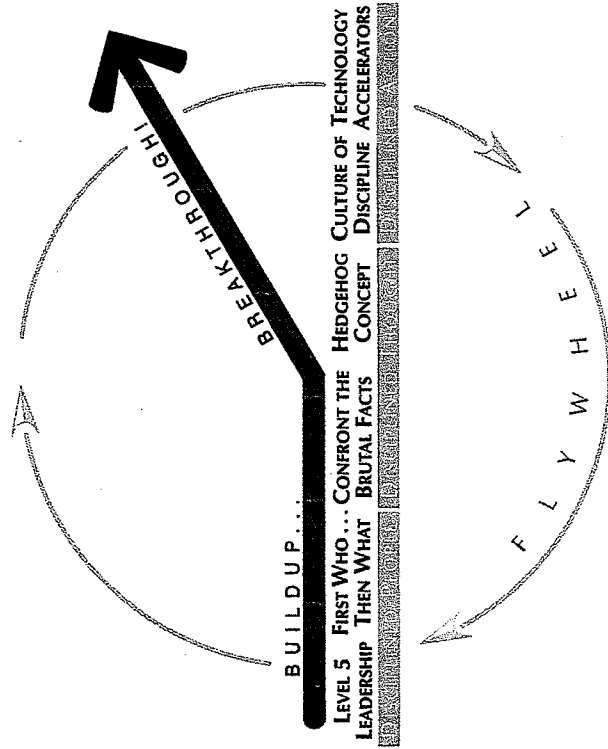
Wells Fargo and Fannie Mae both illustrate the idea that "who" questions come before "what" questions—before vision, before strategy, before tactics, before organizational structure, before technology. Dick Cooley and David Maxwell both exemplified a classic Level 5 style when they said, "I don't know 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."

NOT A "GENIUS WITH A THOUSAND HELPERS"

In contrast to the good-to-great companies, which built deep and strong executive teams, many of the comparison companies followed a "genius

psychology and biases entirely from the research, each finding in the final framework met a rigorous standard before the research team would deem it significant. Every primary concept in the final framework showed up as a change variable in 100 percent of the good-to-great companies and in less than 30 percent of the comparison companies during the pivotal years. Any insight that failed this test did not make it into the book as a chapter-level concept.

Here, then, is an overview of the framework of concepts and a preview of what's to come in the rest of the book. (See the diagram below.) Think of the transformation as a process of buildup followed by breakthrough, broken into three broad stages: disciplined people, disciplined thought, and disciplined action. Within each of these three stages, there are two key concepts, shown in the framework and described below. Wrapping around this entire framework is a concept we came to call the flywheel, which captures the gestalt of the entire process of going from good to great.



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 ACCELERATORS IN THE GOOD-TO-GREAT COMPANIES

Company Technology Accelerators Linked to Hedgehog Concept during Transition Era

Abbott	Pioneered application of <u>computer technology</u> to increase <u>economic denominator of profit per employee</u> . Not a leader in pharmaceutical R&D—leaving that to Merck, Pfizer, and others that had a different Hedgehog Concept.
Circuit City	Pioneered application of <u>sophisticated point-of-sale and inventory-tracking technologies</u> —linked to the concept of being the “McDonald’s” of big-ticket retailing, able to operate a geographically dispersed system with great consistency.
Fannie Mae	Pioneered application of <u>sophisticated algorithms and computer analysis to more accurately assess mortgage risk</u> , thereby increasing economic denominator of profit per risk level. “Smarter” system of risk analysis increases access to home mortgages for lower-income groups, linking to passion for democratizing home ownership.
Gillette	Pioneered application of sophisticated manufacturing technology for making billions of high-tolerance products at low cost with fantastic consistency. Protects manufacturing technology secrets with the same fanaticism that Coca-Cola protects its formula.
Kimberly-Clark	Pioneered application of manufacturing-process technology, especially in nonwoven materials, to support their passionate pursuit of product superiority. Sophisticated R&D labs; “babies crawl about with temperature and humidity sensors trailing from their tails.”
Kroger	Pioneered application of <u>computer and information technology to the continuous modernization of superstores</u> . First to seriously experiment with scanners, which it linked to the entire cash-flow cycle, thereby providing funds for the massive store-revamping process.

Nucor

Pioneered application of the most advanced mini-mill steel manufacturing technology. “Shop the world over” for the most advanced technology. Willing to make huge bets (up to 50 percent of corporate net worth) on new technologies that others viewed as risky, such as continuous thin slab casting.

Philip Morris

Pioneered application of both packaging and manufacturing technology. Bet on technology to make flip-top boxes—the first packaging innovation in twenty years in the industry. First to use computer-based manufacturing. Huge investment in manufacturing center to experiment with, test, and refine advanced manufacturing and quality techniques.

Pitney Bowes

Pioneered application of advanced technology to the mailroom. At first, it took the form of mechanical postage meters. Later, Pitney invested heavily in electrical, software, communications, and Internet engineering for the most sophisticated back-office machines. Made huge R&D investment to reinvent basic postage meter technology in the 1980s.

Walgreens

Pioneered application of satellite communications and computer network technology, linked to its concept of convenient corner drugstores, tailored to the unique needs of specific demographics and locations. A “swallow your tonsils” big investment on a satellite system that links all stores together, like one giant web of a single corner pharmacy. “Like a trip through NASA space center.” Led the rest of the industry by at least a decade.

Wells Fargo

Pioneered application of technologies that would increase economic denominator of profit per employee. Early leader in twenty-four-hour banking by phone, early adopter of ATMs, first to allow people to buy and sell mutual funds at an ATM, pioneer in Internet and electronic banking. Pioneered sophisticated mathematics to conduct better risk assessment in lending.