

many of the world's leading  
business schools  
and business leaders

# GREAT GOOD TO

**JIM COLLINS**  
AUTHOR OF THE BESTSELLING BOOKS  
**BUILT TO LAST**

# *The Study*

- Good: 15 year cumulative returns at or below the market
    - ➔ Transition Point
  - Great: 15 year cumulative returns at least 3 times the market
  - Examined 1400+ companies: 1965-1995
- 
-

# *The Great Companies and Their Returns Over Market*

Abbott (1974-89)	4.0
Circuit City (1982-97)	18.5
Fannie Mae (1984-99)	7.6
Gillette (1980-95)	7.4
Kimberly-Clark (1972-87)	3.4
Kroger (1973-88)	4.2
Nucor (1975-90)	5.2
Philip Morris (1964-79)	7.1
Pitney Bowes (1973-88)	7.2
Walgreens (1975-90)	7.3
Wells Fargo (1983-98)	4.0

# *Moving from Good to Great*

- Level 5 Leadership
  - First Who...Then What
  - Confront the Brutal Facts
  - Hedgehog Concept
  - Culture of Discipline
  - Flywheel vs. Doom Loop
- 
-

## *Principle #1: Level Five Leadership*

- Personal Humility + Professional Will
    - sublimated egos, focused will: more like Lincoln & Socrates than Patton or Caesar. The organization's success is what drives the leader.
  - Asks good questions
  - Ambitious for the work and its people
  - Shares Credit---Takes Responsibility
  - Passes the Power
- 
-

# *Five Levels of Contribution*

## **5 - Level 5 Executive**

Builds enduring greatness through a paradoxical blend of personal humility and professional will.

## **4 – Effective Leader**

Catalyzes commitment to and vigorous pursuit of a clear and compelling vision, stimulating higher performance standards

## **3 – Competent Manager**

Organizes people and resources toward the effective and efficient pursuit of predetermined objectives

## **2 – Contributing Team Member**

Contributes individual capabilities to the achievement of group objectives and works effectively with others in a group setting

## **1 – Highly Capable Individual**

Makes productive contributions through talent, knowledge, skills and good work habits

---

---

# *The 2 Sides of Level 5 Leadership*

## **Professional Will**

- Creates superb results, a clear catalyst in the transition from good to great.
- Demonstrates an unwavering resolve to do whatever must be done to produce the best long-term results, no matter how difficult.
- Sets the standard of building an enduring great company; will settle for nothing less.
- Looks in the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, external factors, or bad luck.

## **Personal Humility**

- Demonstrates a compelling modesty, shunning public adulation; never boastful.
  - Acts with quiet, calm determination; relies principally on inspired standards, not inspiring charisma, to motivate.
  - Channels ambition into the company, not the self; sets up successors for even greater success in the next generation.
  - 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.
- 
-

## *Principle #2: First Who...Then What*

- People are not the most important asset. The right people are.
  - Who's on The Bus?
    - Getting the right people on the bus, the wrong people off the bus and the right people in the right seats on the bus.
  - Recruit...Train...Retain
    - Knowing that the only brake on moving forward would be the inability to attract and keep talent
    - Everyone grows.
- 
-



## *First Who...Then What*

- *“...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.” P. 42*
  - *The right people don’t need to be tightly managed or fired up. P.42*
  - *“...the ‘who’ questions come before the ‘what’ questions – before vision, before strategy, before tactics, before organizational structure, before technology.” P. 45*
  - *In a good to great transformation, people are not your most important asset. The right people are. P.51*
  - *“To be rigorous means consistently applying exacting standards at all times and at all levels, especially upper management. “ P.52*
  - *The only way to deliver to the people who are achieving is to not burden them with the people who are not achieving. P.53*
- 
-

## *Principle #3: The Brutal Facts*

- Honest Assessment—Unwavering Faith
  - Culture of openness that invites critiques from all: frequent and healthy debate.
  - The Stockdale Paradox—having the faith that you will prevail but disciplining yourself to face the brutish facts of current realities
- Debrief Success AND Failure
  - End each meeting with, “Where did we succeed...and where did we fail?”



## *The Brutal Facts*

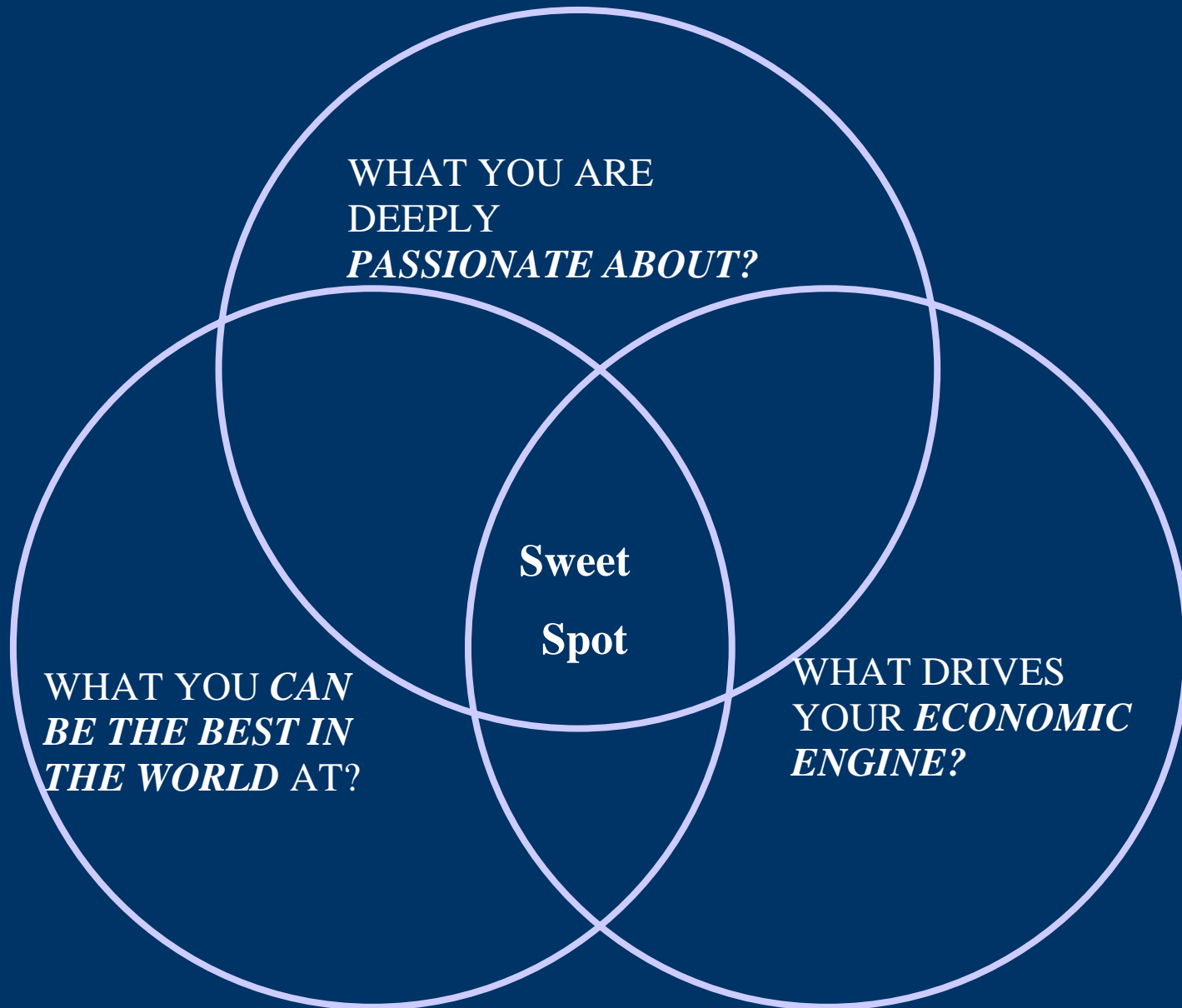
- *“You absolutely cannot make a series of good decisions without first confronting the brutal facts.” P. 70*
  - *Fred Purdue of Pitney Bowes said, “When you turn over rocks and look at all the squiggly things underneath, you can either put the rock down, or you can say, ‘My job is to turn over rocks and look at the squiggly things,’ even if what you see can scare the (stuffens’) out of you.” P. 72*
  - *“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.” P.74*
  - *Creating a climate where truth is heard:*
    - 1. Lead with questions, not answers.
    - 2. Engage in dialogue and debate, not coercion.
    - 3. Build “red flag” mechanisms.
- 
-

## *Principle #4: Hedgehog Concept*

- Truly great companies have a simple core concept that drives everything:
  - What can they be the best in the world at?
  - What drives our economic engine (and what could accelerate that)?
  - What are we deeply passionate about?

(Need all three to be great.)

# Hedgehog Concept



## *Hedgehog Concept*

- 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. P. 98
  - *“The only way to remain great is to keep applying the fundamental principles that made you great.”* P.108
  - *“We should only do those things that we can get passionate about.”* P.109
  - The essence of the process is to get the right people engaged in vigorous dialog and debate, infused with the brutal facts and guided by questions formed by the three circles. P.114
  - *“Know ‘one big thing’ and stick to it.”* P. 119
- 
-

## *Principle #5: Culture of Discipline*

- Disciplined People, Thought, Action
    - Environment of freedom circumscribed by a culture of discipline.
    - With disciplined people, you don't need much hierarchy or bureaucracy (since self-disciplined people don't need to be managed).
    - With disciplined action, you don't need many controls.
    - Combining a culture of discipline with a spirit of entrepreneurship creates success.
    - Discipline is as much about saying “No” to temptations that are not one's core business as it is about saying “Yes.” (“Stop Doing” List)]
- 
-

## Culture of Discipline

- *“The purpose of bureaucracy is to compensate for incompetence and lack of discipline.” P.121*
  - *“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.” P. 121*
  - *“Avoid bureaucracy and hierarchy and instead create a culture of discipline.” P. 121*
- 
-



## *Principle #6: Flywheel vs. Doom Loop*

The key to a successful company does not appear in an instant, rather it is 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.

**Key Idea:** There is always a general pattern of buildup followed by breakthrough

- there is no set time for build up, it takes as long as it needs to

From the outside, a hatching egg may seem like an instant success. To the chick inside, it is one step of a long process

---

---

## *The Flywheel*

- *“There will be build up and break through.” P.165*
  - *“Step by step, action by action, decision by decision, turn by turn of the flywheel – that adds up to sustained and spectacular results.” p.165*
  - *“Tremendous power exists in the fact of continued improvement and the delivery of results. Point to tangible accomplishments ... people see and feel the buildup of momentum, they will line up with enthusiasm.” P.174*
- 
-

## *The Flywheel at Circuit City*

- 1984 Forbes published 2 page article on Circuit City as a hot new company
- 1973 Alan Wurtzel inherited the company (almost bankrupt) from his father
- 1977 The first Circuit City store
- 1982 Circuit City superstore
- Had been traded on a major stock exchange since 1968

## *The Flywheel at Nucor*

- Nucor was in the steel industry and they were facing bankruptcy in 1965.
  - They started turning the fly wheel about this time and built there first steel mill because they could not find a reliable supplier.
  - They soon realized they had a way of making steel better and cheaper then anyone else.
  - They started building more mills because of the large amount of customers the first mill brought in.
  - They started turning the fly wheel and gaining momentum. If they just kept doing what there doing there was no reason why Nucor could not be the number one steel manufacturer in America. And that's what they did.
- 
-

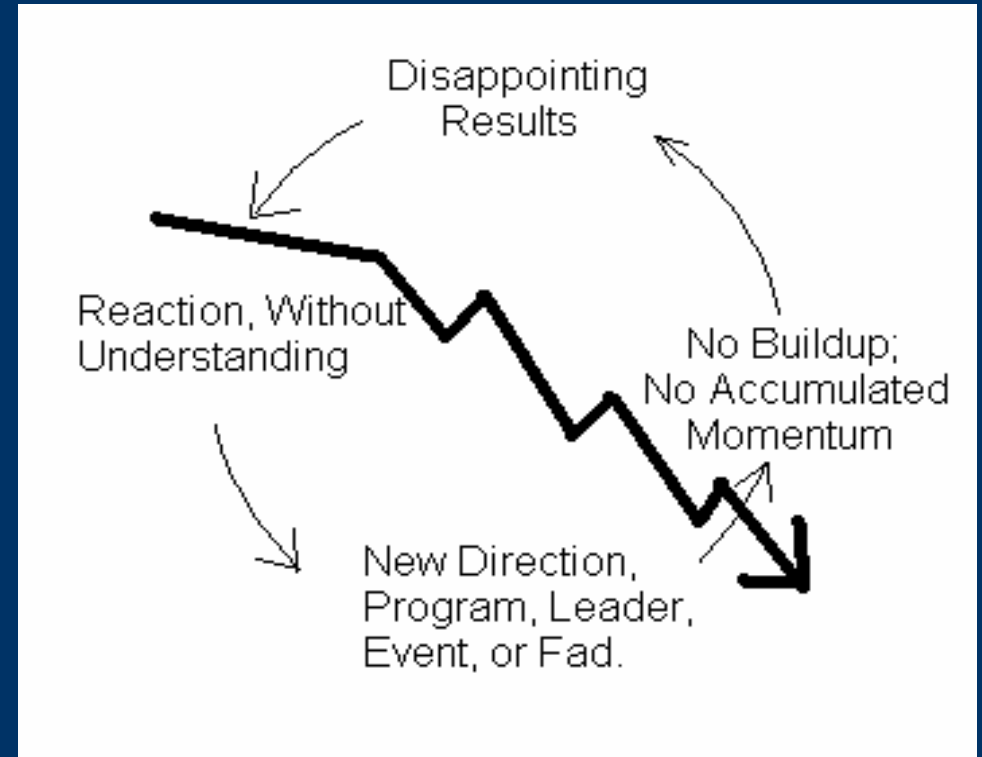
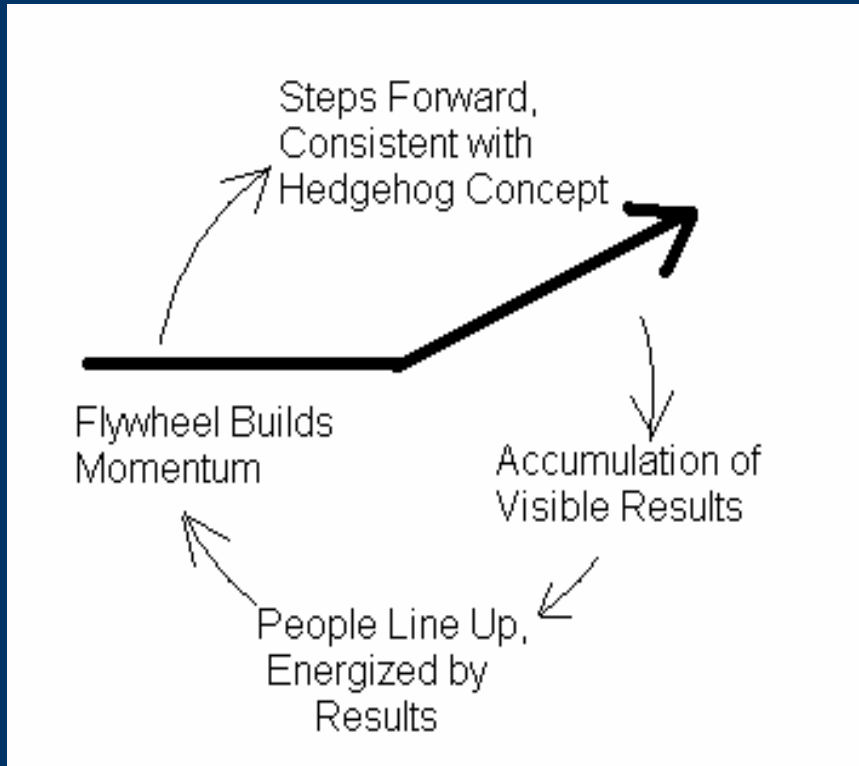
## *The Doom Loop*

- Comparison companies launched new programs aimed at “motivating troops”, the programs failed
- They would push the flywheel in one direction, then stop, change course, and throw it in a new direction
- After lurching back and forth, failed to build sustained momentum and fell instead- doom loop

## *The Doom Loop at Warner Lambert*

- 1979- leading consumer products company
  - 1980- turned to health care
  - 1981- changed course to diversification and consumer goods
  - 1987- took a U-turn, again to be like Merck
  - 1990- reversed and re-embraced diversification and consumer brands
  - Each CEO brought his own new program and halted the momentum
  - Ward Hagen vs Joe Williams
  - 1979- 1998- underwent 3 major restructurings
    - 1. Hacking away 20,000 people in search of quick breakthrough results
    - 2. Attain burst of results, then slacken, never attaining the sustained momentum of a buildup-breakthrough flywheel
    - 3. Stock returns flattened, swallowed up by Pfizer
- 
-

# Flywheel vs. Doom Loop



*Questions?*

