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GOOD TO GREAT

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

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JIM COLLINS is the founder of a management research laboratory in Boulder, Colorado. He has spent more than 10 years studying and analyzing how great companies achieve superior performance, grow and then perform consistently well. The results of this analysis have been contained in the four books Mr. Collins has co-authored including *Built to Last* (1994) and *Beyond Entrepreneurship* (1995). Jim Collins is a former researcher and teacher at Stanford Graduate School of Business and adviser to senior executives and CEOs of numerous large companies.

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MAIN IDEA

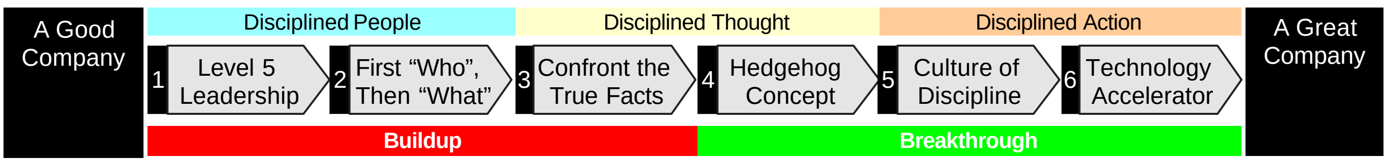
Can a good company become great, and if so, how does that transition process occur?

To answer that question, the 40-year operating results of 1,435 established companies were analyzed. From that database, 11 companies were identified (Abbott, Circuit City, Fannie Mae, Gillette, Kimberley-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens and Wells Fargo) which had each generated cumulative stock returns exceeding the general stock market performance by 6.9 times over a 15-year period. (This long time frame means one-off events were filtered out). In other words, these 11 companies had genuinely shown they had made a sustainable transition from being good (or average or mediocre) to great.

So the question now becomes: How did these 11 companies become great, and are those lessons replicable? The answer is stunning in its simplicity. None of these companies launched radical or high profile change programs. Nor did they have a miracle moment where a flash of inspiration showed them the way to the "Promised Land". Instead, they used down-to-earth and pragmatic programs to commit to a standard of excellence founded around three elements:

1. Disciplined People – getting the right people in the business and then keeping them focused on excellence.
2. Disciplined Thought – being brutally honest about the facts and avoiding the temptation to get sidetracked on non-core ideas.
3. Disciplined Action – realizing what is important to achieve and what isn't.

In all, these three elements can be broken down into six key concepts that embody the good-to-great transition process:



Note that a "flywheel effect" is also involved. The first three concepts build momentum in just the same way as a lot of initial effort is required to get a heavy flywheel turning. Companies build momentum for change in a positive direction when they stop doing senseless things that consume time and attention resources. Getting the flywheel turning takes years of consistent effort rather than a blinding flash of inspiration, but once the flywheel has built up speed, it will sustain a prolonged period of breakthrough performance. People get energized by the early results and that motivates them to do more – ensuring the flywheel will drive forward momentum for some time to come.

The leaders of great companies are not high profile or celebrities. Instead, the CEOs of great companies are most likely to have come from somewhere inside the company and will have personalities that are a paradoxical blend of personal humility and professional will. And most often, they will attribute their success to good luck rather than personal greatness.

The key to making a good-to-great transition isn't setting the right objective. Instead, concentrate on getting the right people on board, and then they will figure out what the most important objective should be. And the more people with initiative and skills that join the team, the better.

All good-to-great companies openly face the competitive realities of the markets in which they operate without losing faith that in the end, the company can and must prevail. Honesty and candor allows these companies to make the right decisions as they move forward instead of distorting the facts.

Hedgehogs are relatively simple animals who know just one big thing and stick to it. Good-to-great companies do something similar – they consistently stick to doing what they do best and avoid getting distracted into new fields of business that are away from their core competencies. Good-to-great companies move ahead of their competitors by pursuing only those projects that have three traits:

1. What they can be "best in the world" at.
2. What drives profitability for their business model.
3. What their people are deeply passionate about.

Having disciplined people eliminates the need for a hierarchy. Similarly, disciplined thought eliminates the need for a bureaucracy while disciplined action means there is no call for excessive controls. Good-to-great companies combine a culture of discipline with an entrpreneurial ethic to generate truly great marketplace performance.

Good-to-great companies don't get caught up in new technology fads. Instead, they link technology with the hedgehog concept – that is, they will adopt a new technology only if it accelerates their performance in an area which they are passionate about, perform to world-class standards and makes money.