



## *Good To Great* by Jim Collins

*Built To Last* positioned Jim Collins, along with mentor Jerry Porras, as corporate researchers on the forefront. *Built To Last* studied the factors associated with companies that made great progress over competitors for a sustained period of time. In summary, it was the “visionary” nature of these companies that helped build their brand and distinguish them from their competitors.

One of Collins’ former McKinsey partners challenged Collins that *Built To Last* gave very little insight on how an existing company could go from being good to great. Spurred on by that question, Collins put together a research team and spent 5 years in search of the answer to that question. Collins insisted that the research “stand alone” from *Built To Last*. He decided that he would track those public corporations, which made a dramatic leap after being “good companies” for many years into “greatness” status for 15 years or more. Their research whittled down to only 11 companies: Abbot, Circuit City, Fannie Mae, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens and Wells Fargo.

Collins learned that companies who make this remarkable transition really don’t do it over-night. He analogizes their success to that of a flywheel, where a sustained momentum accelerates the energy output. The companies able to create this flywheel effect had the following characteristics in common:

**Level 5 Leadership** – Level 5 Leaders are not charismatic, media types. Chances are you’ve never heard of them. They are humble, self-effacing and more concerned about the prosperity of the company than their individual success.

**First Who...Then What** – Using a bus analogy, Collins claims that great companies first get great people on the bus, then decide where to drive it. According to Collins, the *right* people are your most important asset.

**Confront the Brutal Facts (Yet Never Lose Faith)** – Good-to-Great companies maintain unwavering faith that they 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 their current reality – whatever that might be.

**The Hedgehog Concept (Simplicity within the Three Circles)** – Good-to-Great companies do what they *can* do best (as opposed to what they want to do best), what they are deeply *passionate* about, and they focus on what drives their *economic engine*.

**A Culture of Discipline** – Having a disciplined culture is the opposite of having a controlled one. There is no need for hierarchy, bureaucracy, or excessive control.

**Technology** - None of the *Good To Great* executives put technology as one of their top 5 drivers. None of them jumped on the .com bandwagon out of panic. All of them took a cautious approach as to how technology can already help them do what they do well even better.

I'll spend the rest of this review commenting on some of the genuine insights offered by this book. Understand that Collins does not intend to be "revolutionary". He is merely reporting data. The suggestion is if you could model these critical factors, your company could also reach the level of greatness.

**The 5th Level Leader** – 5th Level Leaders have a combination of strong will and personal humility. The 5<sup>th</sup> Level Leader demonstrates an unwavering resolve and sets the standard for building great companies. In balance, he/she demonstrates a compelling modesty, relies on inspired standards and channels ambition into the company, and not into the self. The 5<sup>th</sup> Level Leader "looks in the mirror, not out the window" when focusing on responsibility and does just the opposite when apportioning credit for success of the company.

For years now I have been preaching the importance of taking 100% responsibility and being an "inclusive" hero. When a leader's energy is "in balance" they are driven neither by ego nor fear. They are moving at a speed that allows them to feel themselves, as well as those around them. They realize more than anyone else, that "the less I control, the more I can accomplish". Leadership greatness is about being a conduit of energy, not a single generator of it.

Collins asked a critical question: Can 5th Level Leadership be taught? Well, yes and no. To the extent someone is gifted with these innate capabilities, they certainly have a head start. For any leader it is a matter of degree. It is about growing into the role of a 5th Level Leadership leader.

It is interesting to note that most 5th Level Leaders do not live extravagant lifestyles. They have strong family and community relationships. They have healthy and long-term marriages. Most of them are highly spiritual people who attribute much of their success to good-luck and God, rather than personal greatness. These men and women are servant leaders, not self-serving ones.

### **First Who...Then What**

Once you have the right people on the bus, the problem of how to motivate and manage people largely goes away. The right people don't need to be tightly managed or fired up; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great. (Doesn't that describe you?) According to Collins "if you have the wrong

people, it doesn't matter whether you find the right direction; you *still* won't have a great company. Great vision without great people is irrelevant." Again, I couldn't agree more. While Collins doesn't say it, here is the reason having the right people is so important. Until recently, business has been largely dominated by how we can do things. How well we can implement the latest technology. In fact, until recently, the Fast Company magazine motto for success was "faster, better, cheaper".

But now things have changed. We are seeing a fundamental shift. It is becoming less about what we can do than who we can become. Less about rugged individualism and more about connectedness. Interestingly, Fast Company's new mantra is "change, learning, and leadership". Notice the fundamental shift from things to people. The reality is, we can no longer compete based on faster, better, cheaper. We're already going as fast as we possibly can, producing better quality than ever and to compete on price is a game only few can win. Today's great company competes on the strength of its relationships.

While we may wish it otherwise, the vast majority of people are *not* going to take 100% responsibility. In large part, it is because few of them are convinced they can. They are still stuck with the notion that their life is being controlled by external circumstances. These workers are not self-disciplined. They want handholding. Then when things don't go right they want to blame someone else. Given simple statistics, the reality is the vast majority of companies are not capable of "greatness" because of the available workforce talent. This is also why top talent commands the best opportunities.

There will be a handful of companies where the need to externally motivate is not all that necessary. However, for the majority of companies, self-motivated individuals will continue to be a key to productivity.

How people are compensated makes little difference when it comes to productivity. Again, this makes common sense. Pay someone a fair day's wage for a fair day's work, and money is usually no longer an issue. For those people who are motivated primarily by compensation, send them to the competition. Their energy is not that of a Level 5 person. They may cause a short burst in productivity, which is guaranteed to be followed by lots of drama and the eventual crash. These unnecessary dramas you can best do without. According to Collins "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".

Collins points out that at Circuit City, as well the other great companies, you'll often find a banner or similar message that reads, "always looking for great people". Anyone who's ever flown on Southwest Airlines or eaten a hamburger at an In-n-Out in California knows that these are two excellent companies who constantly market for great people. And they get them. And they prosper for it. Just goes to show- you get what you focus on!

Here are a few of the steps I recommend to get the right people on the bus:

1. Know precisely what you are after in terms of both skills and character.
2. Test for skills. I recommend looking at [www.brainbench.com](http://www.brainbench.com).

3. Check their background. I recommend [www.infolinkscreening.com](http://www.infolinkscreening.com)
4. Assess their character. I believe in the assessment tools at [www.zeroriskhr.com](http://www.zeroriskhr.com)
5. Engage in extensive interviews, including those by future co-workers. Make sure to ask my favorite question, “Tell me something that felt unfair to you in your last job”. And then ask, “Why, why, why”.

For an extensive set of hiring forms, reports and training material, I of course recommend the program I designed, [www.hrthatworks.com](http://www.hrthatworks.com)

Collins makes mention to the issue of termination. He states that “when you know you need to make a people change, act”. The litmus test is this: if they quit would you be relieved or upset? Collins counsels us that we know when we have the right person on the bus or not. When we don’t let that person off the bus we are actually acting unfair to that person. “Every minute you allow a person to continue holding a seat when you know that person will not make it in the end, your stealing a portion of his/her life, time that he/she could spend finding a better place where he/she could flourish”.

Given my years of practice as an employment law attorney, I might know a thing or two about this issue. Many a company has not let the wrong employee go because they fear the very act of termination itself. And why not, to begin with it sounds like some sort of death sentence. I have suggested we instead think in terms of “liberation” instead of “termination”. The fact is, it is not a death sentence. As Collins points out, it’s actually an opportunity for that person to find a place where they can find joy in their work. Many people know that they are “dead” in their jobs but have the fear of moving forward. Perhaps they lack the necessary courage or skills to do so. Whatever the reason is, you in a sense do them a disservice by enabling their lack of ability or effort. Better to liberate them gently so they can learn any lessons and perhaps find a place where they can be a great employee.

Here are some additional suggestions that Collins makes in order for us to improve our workforce:

1. **Lead with questions, not answers** – Level 5 Leaders spend a lot of the time “just trying to understand”. They have an open door, engage in radical honesty and have non-agenda meetings. In my terms, they are “present”.
2. **Engage in dialogue and debate, not coercion** – Any of you that have heard me speak know one of my favorite subjects is that of dialogue. Dialogue creates a “safe place” for communicating. According to Collins “all the good-to-great companies had a penchant for intense dialogue”. Amen. One reason why I preach performance dialogues over performance evaluations.
3. **Conduct autopsies, without blame** – Again, in a responsible corporation there is no blame or justification. What comes its way is simply a learning lesson. Adjustments are made, and you move on towards a new and higher understanding. As Buckminster Fuller so aptly stated, “The reward we get for solving one set of problems is yet a greater set of problems”.
4. **Build “red flag” mechanisms** – According to Collins, there was no evidence that the good-to-great companies had more or better information than the comparison

companies. None. They had virtually identical access to good information. They key then is in turning the available information into information “that cannot be ignored”. The ability to wave a red flag so that you can get someone’s attention is a must. Whether by using surveys, open agenda meetings, or other mechanisms, your company has to get access to critical information...and do something with it.

### **The Hedgehog Concept**

According to Collins, the hedgehog concept is a “simple crystalline concept that flows from deep understanding about the intersection of the following three circles”:

1. What you can be best in the world at,
2. What drives you economic engine, and
3. What you can be passionate about.

A critical point is the “hedgehog concept is not a goal to be the best; it’s 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. The distinction is absolutely critical”. For example, you may *want* to be the greatest violin player in the world, but if you don’t have natural talent for music, you’re out of luck. Make it your hobby, not your profession. Collins points out how companies that stray outside their core competency pay for it dearly. In contrast, when a great company can no longer do a certain thing better than someone else, despite the fact that it had been doing it for a long time, it dropped that line of work. And it never looked back. The question for you might be “what can we become best in the world at”, or maybe in your city, or industry at.

I learned a lot from Collin’s discussion about the second circle of influence, your economic engine denominator. For some companies the focus is profit per employee. For others it is per geographic region, per brand, per local population, per ton of finished good, or per customer visit. What is your economic engine denominator? Dr. Deming preached that a manufacturing company should focus on producing the next unit of profit at the lowest possible cost.

What does this mean for you? If you are an employee or a consultant it may be how much money you can possibly earn in a 40-50 hour workweek. For a company like mine, that licenses information, it could be profit per partner.

Collin’s discussion further reinforces my belief system that we need to “open the books” and teach about finances and accounting. To everyone. Anyone serious about such an effort should consider reading Jack Stacks “The Great Game of Business” and Judith Orloffs “The Accounting Game”.

The last circle of influence, being a passionate company, puts an interesting twist on this subject. According to Collins, good-to-great companies did not say “lets get passionate about what we do”, they went the other way “we should only do those things that we can be passionate about”. Again, this type of approach creates a challenge for the vast majority of companies. Let’s say you run a janitorial service. Hopefully your workers can be passionate about doing

janitorial work well. Perhaps if you had a local cleaning company, you could try to focus on cleaning those types of companies that you could be passionate about, a hospital, day care center, church, or school. William Pollard wrote about how his passion for applying Christian principles help him grow the largest and most successful janitorial service, Service Master, in his book *Soul of the Firm*.

*The Fish Story* is about the Seattle Pike Place Market. They show how a fish merchant was able to make the business of packaging and selling *dead, slimy, and smelly* objects a fun exercise. It became fun for both employee and customer alike, resulting in a great deal of publicity and profits. So outstanding was it's success, they have produced a great little book and video about it. Their theme is: if you can be passionate working with dead, slimy and smelly objects, you can get passionate about doing anything.

I think the point here is to keep things in perspective. The idea is to be passionate about life. To be passionate about what we're doing in the present, and continue to move forward. Where possible, we can try to hire passionate people. For example, there is no doubt the employees of Southwest Airlines show more passion for their jobs than any other major carrier. Why is that? Because that's what they hire for. Because they have established that as their reputation, they attract passionate people. Seriously, if you considered yourself to be a passionate airline stewardess, who would you rather go to work for Southwest Airlines, or United?

This entire discussion around the hedgehog concept helped me with my own need to stay focused. I can focus on providing the very best nuts and bolts legal compliance and personnel management tools available. I can't compete on supplying more information than anyone else (I just saw an ad glorifying a legal site with one million pages of information!). What I can compete on, and be better than anyone else at, is supplying a limited set of tools that are better than anyone else's. In a sense, I can uniquely position myself as helping a company *do more with less*.

Likewise, *Good to Great* reinforces my belief in doing what I am passionate about. Even if it takes me through some rough times, even if it sometimes makes me ask at times why am I doing this? Now that I am finally seeing the "light at the end of the tunnel", it is reconfirming that so many of these great companies have experienced a similar phenomenon of going through rough times before their break-out occurs. It's the flywheel concept.

Lastly, the issue about economic drivers is just as important for you and me as it is a Fortune 500 company. Because I am in the licensing business, I am much better off looking for partners who can help me leverage my efforts rather than selling individual units to individual companies. My highest and best use will be to continue to put together quality products and establish relationships with highly profitable resellers. Anytime I am doing anything else other than those two things, I am not working in my highest and best use. I am doing something that I should have delegated or eliminated.

My question for you then is: What is your highest and best use? What are you passionate about it? What is your driving economic denominator? And does everybody at your company know the answer to these questions?

### **A Culture of Discipline**

Collins claims magic occurs when you blend a culture of discipline with an ethic of entrepreneurship. Collin's discussion about discipline is no different than my discussion about responsibility or Marshall Thurber's discussion about integrity. Collins points out the interesting paradox that political scientists have known all along. In order to have freedom, there must be rules. To the extent that people are willing to voluntarily abide by those rules, there will an increase in the levels of available freedom. This discipline, responsibility or integrity cannot come through control. It must come through agreement. There must be disciplined people who engage in disciplined thought and then take disciplined action. One of the most important disciplines is staying loyal to the hedgehog concept.

Note: in a discussion with Jack Freiberg, author of NUTS! (the Southwest Airlines chronicle) he mentioned the word *discipline* when it came to SWA's culture. Fact is, they are disciplined about having fun and loving their jobs. They realize as responsibilities grow it is hard to maintain such a passion if they are not disciplined about doing so! What are you disciplined about?

### **Technology Accelerators**

For those companies studied, (and admittedly few were "technology" companies), the whole issue of technology was not paramount to their success or decline. Rather, it merely acted as an accelerator of the flywheel concept. Their mantra for dealing with technology – "crawl, walk, run". Based on the experience of these companies, a cautioned approach towards technology works best, even during times of rapid and radical change.

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

In this chapter Collins takes the notion of the flywheel concept one step further. He emphasizes that when companies went from good to great there was "no miracle moment". No technological breakthrough. No special announcement. Rather, the accumulated effect of dedicated work finally blossoming on an exploding basis. These findings are in alignment with what Napoleon Hill wrote in *Think and Grow Rich* decades ago. He said, "The most successful people have a *burning desire for a particular purpose*". Success didn't come overnight, even though it may have appeared that way to outsiders. Dedication and commitment to purpose builds people and companies of great wealth. Similarly, this flywheel can work in reverse, which Collins refers to as the "doom loop".

### **From Good To Great to Built To Last**

In this concluding chapter, Collins attempts to integrate the findings in his two books. What he tells us is that *Built To Last* is conceptually the sequel to *Good To Great*. It is about great companies that have sustained themselves. The principal of *Good To Great*, helps build great companies and the principals of *Built To Last* helps sustain them. He reminds us that in order to build sustaining companies we must "discover our core values and purpose beyond just

making money” and combine this with the dynamic of the preserve growth/stimulate progress. In this chapter, Collins raises what I believe may be the most interesting question of all. That is “why be a great company”? His response: “1) it’s no harder given these ideas than being just a good company. It is just a shift in energy, not an additional expenditure of it. 2) doing so helps us in our search for meaningful work and 3) to have a meaningful life”.

So, do you have a desire to be great? If so, why? What’s wrong with simply being good? I think that regardless of the “why”, the bottom line is this – if you really want to be “great” the formula has been there all along. Collin’s research and his books merely confirm time-honored principles. And therein lies the Catch 22: *only* if you are committed to following these principals do you really dare to be great.

**Conclusion:** If you want to go from good to great, put a whole bunch of well-disciplined people on your bus. Then determine what kind of journey they can go on that they can 1) do better than anyone else, 2) be passionate about, and 3) will generate a lot of money in the process. If that’s not your agenda, then get off the bus so we can make room for someone else, because we’re leaving!

Hope this summary provided you with food for thought and action. If you have any questions or thoughts please feel to email me at [don@donphin.com](mailto:don@donphin.com) or call (800) 234-3304. All the best, Don