Good to Great

The book's central question: How does a good company become a great company?

Definition, a great company is one that averaged cumulative stock returns 6.9 times the general market -- and their direct competitor -- for the 15 years following their transition.

Key factors:

- Level 5 leaders: those who blend personal humility and professional will.
- Focus on people before strategy.
- A tendency to keep the faith and face the brutal facts.
- Hedgehog concept: where passion, economics, and excellence meet.
- A culture of discipline. (Note: see Gawande on airplane pilots.)
- Technology accelerators.
- The flywheel concept.

Key non-factors:

- celebrity leaders
- executive compensation
- strategy per se
- tech (though tech can accelerate change)
- mergers and acquisitions
- a focus on managing change or motivating people
- no tag line or launch event or special program
- mere economic circumstances (greatness was rather a matter of choice)

Ch. 1: Level 5 leadership

Common adjectives of level 5 leaders: quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, etc.

But they also have a ferocious resolve to make the company great.

Work isn't about what they get. It's about what they build.

Ch. 2: First Who, then What

The people came first, the vision after.

"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.' "

Guidelines:

1. When in doubt, don't hire -- keep looking.
2. When you need to make a people change, act. Don't wait.
3. Put your best people on your biggest opportunities, not your biggest problems.

Ch. 3: Confront the Facts, but Don't Lose Faith

How do you create a climate where truth is heard?

1. Lead with questions, not answers.
2. Engage in dialogue and debate, not coercion.
3. Conduct autopsies, without blame.
4. Build "red flag" mechanisms -- ways to alert leaders to threats.

Ch. 4: The Hedgehog Concept

Hedgehogs (as opposed to foxes) simplify a complex world into a single organizing idea, a basic principle or concept that unifies and guides everything they do.

Princeton professor Marvin Bressler: "You want to know what separates those who make the biggest impact from all the others who are just as smart? They're hedgehogs." Freud and the unconscious. Darwin and natural selection. Marx and class struggle. Einstein and relativity. Adam Smith and division of labor. "Those who leave the biggest footprints have thousands calling after them, 'Good idea, but you went too far.' "

The essential strategic difference between the good-to-great and comparison companies lay in two fundamental distinctions.

- First, the good-to-great companies founded their strategies on deep understanding along three key dimensions -- what we came to call the three circles.
- Second, the good-to-great companies translated that understanding into a simple, crystalline, concept that guided all their efforts -- hence the term Hedgehog Concept.

Hedgehog Concept questions:

1. What can you be the best in the world at?
2. What drives your economic engine?
3. What are you deeply passionate about?

The place where they overlap is what should guide you.

Note: A Hedgehog Concept is not a goal, strategy, intention, or plan to be the best, it is an understanding of what you can be the best at.

Then sticking to it.

On average, companies took several years to determine their hedgehog concept.

1. What can you be the best in the world at?

Examples.

Abbot Laboratories Could become the best at creating a product portfolio that lowers the cost of health care.	Abbot confronted the reality that it could not become the best pharmaceutical company in the world, despite the fact that pharmaceuticals at the time accounted for 99 percent of its revenues. It shifted its focus to creating a portfolio of products that contribute to lower-cost health care, principally hospital nutritionals, diagnostics, and hospital supplies.
Circuit City Could become the best at implementing the "4-S" model (service, selection, savings, satisfaction) applied to big-ticket consumer sales.	Circuit City saw that it could become the McDonald's of big-ticket retailing, able to operate a geographically dispersed system by remost control. Its distinction lay not in the "4-S" model per se, but in the consistent, superior execution of that model.
Fannie Mae Could become the best capital markets player in anything that pertains to mortgages.	The critical insight was to see 1) that it could be a full capital markets player as good as any on Wall Street and 2) that it could develop a unique capability to assess risk in mortgage-related securities.
Gillette Could become the best at building premier global brands of daily necessities the require sophisticated manufacturing technology.	Gillette saw it had an unusal combination of two very different skills: 1) the ability to manufacture billions of low-cost, super-high-tolerance products (e.g.: razor blades) and 2) the ability to build global consumer brands -- the Coke of blades or toothbrushes.
Kimberly-Clark Could become the best in the world at paper-based consumer products.	Kimberly-Clark realized that it had a latent skill at creating "category killer" brands -- brands where the name of the product is synonymous with the name of the category (e.g.: Kleenex) -- in paper-based products.
Kroger Could become the best at innovative super-combo stores.	Kroger always had a strength in grocery store innovation. It took this skill and applied it to the question of how to create

	a combination store with many innovative, high-margin mini-stores under one roof.
Nucor Could become the best at harnessing culture and technology to produce low-cost steel.	Nucor came to see that it had tremendous skill in two activities: 1) creating a performance culture and 2) making farsighted bets on new manufacturing technologies. By combining these two, it was able to become the lowest-cost steel producer in the United States.
Philip Morris Could become the best in the world at building brand loyalty in cigarettes and, later, other consumables.	Early in transition, Philip Morris saw that it could become simply the best tobacco company in the world. Later, it began to diversify into non-tobacco areas (a step taken by all tobacco companies, as a defensive measure), but stayed close to its brand-building strengths in "sinful" products (beer, tobacco, chocolate, coffee) and food products.
Pitney Bowes Could become the best in the world at messaging that requires sophisticated back-office equipment.	As Pitney wrestled with the question of how to evolve beyond postage meters, it had two key insights about its strengths: 1) that it was not a postage company, but could have a broader definition (messaging) and 2) that it had a particular strength in supplying the back rooms with sophisticated machines.
Walgreens Could become the best at convenient drugstores.	Walgreens saw that it was not just a drugstore but also a convenience store. It began systematically seeking the best sites for convenience -- clustering many stores within a small radius and pioneering drive-through pharmacies. It also made extensive investments in technology, linking Walgreens stores worldwide to create one giant "corner pharmacy."
Wells Fargo Could become the best at running a bank like a business, with a focus on the Western United States.	Wells came to two essential insights. First, most banks thought of themselves as banks, acted like banks, and protected the banker culture. Wells saw itself as a business that happened to be in banking. "Run it like a business" and "Run it like you own it" beceme mantras. Second,

	Wells recognized that it coulde not be the best in the world as a superglobal bank, but that it could be the best in the western United States.

2. What drives your economic engine?

"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.

That said, we did notice one particularly provocative form of economic insight that every good-to-great company attained, the notion of *a single economic denominator*."

Key question:

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."

For Walgreens, it was profit per customer visit. For Wells Fargo, it was profit per employee. For Fannie Mae, it was profit per mortage risk level (not profit per mortgage).

3. What are you deeply passionate about?

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 we can get passionate about."

Ch. 5: A Culture of Discipline

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

Specifically:

1. Build a culture around the idea of freedom and responsibility, with a framework.
2. Fill that culture with self-disciplined people who are willing to go to extreme lengths to fulfill their responsibilities.
3. Don't confuse a culture of discipline with a tyrannical disciplinarian.
4. Adhere with great consistency to the Hedgehog Concept, exercising an almost religious focus on the intersection of the three circles.

Words in common at the good-to-great companies: disciplined, rigorous, dogged, determined, diligent, precise, fastidious, systematic, methodical, workmanlike, demanding, consistent, focused, accountable, responsible.

Do whatever it takes to become the best in carefully selected arenas and then seek continual improvement from there.

Keys to success:

Have Level 5 leaders who get the right people in place.
Confront the brutal facts.
Create a climate where the truth is heard.
Have a council.
Work within the 3 circles.
Frame all decisions in the context of a crystalline Hedgehog Concept (and don't do what falls outside the concept).
Act from understanding, not bravado.

Ch. 6: Technology Accelerators

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

Good-to-great companies link technology changes directly to their Hedgehog Concept and economic denominator.

Key question: 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, ask: Do you need the technology at all?

If yes, then all you need is parity.

Examples:

> Abbott: Pioneered applicaton of computer technology to increase economic denominator of profit per employee.
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> Circuit City: Pioneered application of sophisticated point-of-sale and inventory-tracking technologies.
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> Fannie Mae: Pioneered applicaton of sophisticated algorithms and computer analysis to more accurately assess mortgage risk.
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> Gillette: Pioneered application of sophisticated manufacturing technology for making billions of high-tolerance products at low cost with fantastic consistency.
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> Kimberly-Clark: Pioneered application of manufacturing-process technology, especially in nonwoven materials.
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> Kroger: Pioneered application of computer and information technology to the continuous modernization of superstores. E.g.: scanners.
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> Nucor: Pioneered application of the most advanced mini-steel manufacturing technology.
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> Philip Morris: Pioneered application of both packaging and manufacturing technology. E.g.: flip-top boxes.
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> Pitney Bowes: Pioneered application of advanced technology to the mailroom.

Walgreens: Pioneered application of satellite communications and computer network technology.

Wells Fargo: Pioneered application of technologies that would increase economic denominator of profit per employee. E.g.: 24-hour banking by phone, ATMs.

Note: 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.

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 by a fear of being left behind.

Ch. 7: The Flywheel and the Doom Loop

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 noe killer innovation, no solitary lucky break, no wrenching revolution.

There was no miracle moment, just consistent, rigorous application of the Hedgehog Concept.