Good to Great: Why Some Companies Make the Leap...and Others Don't

by Jim Collins

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Reviewed by John Durel

This study of successful for-profit companies contains important lessons for leaders of nonprofit organizations.

Background

To begin the research for the Good-to-Great study, Jim Collins and his research team searched for companies that:

- performed at or below the general stock market for at least fifteen years;
- then at a transition point began to pull away from the competition, and
- sustained returns of at least 3 times the general market for the next fifteen years.

He started out with a list of 1,435 companies and found eleven that met his criteria. These eleven produced, on average, a return of 6.9 times the general stock market during the 15 years following their respective transition points. Collins chose a 15-year span to avoid "one-hit wonders" and lucky breaks.

For each of the eleven Collins then selected a comparison company, from the same industry, that did not make the same leap to great performance. Some of the Good-to-Great companies, and their direct comparisons, are: Abbott and Upjohn; Gillette and Warner-Lambert; Kroger and A&P; Pitney-Bowes and Addressograph; Wells Fargo and Bank of America. Collins also studied some companies that made a leap in performance, but did not sustain the advantage for 15 years. In this category are Chrysler, Hasbro, Rubbermaid, and others.

Once he had selected the companies, he began to gather data and conduct interviews. Then he began his analysis, asking what were the salient differences between the Good-to-Great companies and the others.

I. Leadership

Good-to-Great leaders are modest about their achievements, attributing their successes to external factors, sometimes even citing luck. This personal modesty does not imply weakness. On the contrary, they are determined to do what needs to be done, no matter how difficult. They are driven to succeed, and will settle for nothing less. And success means success for the company, not for themselves.

They set high standards for themselves and others. They motivate others not with great visions and charisma, but by demanding excellence and living up to their own standards. The CEO of Circuit City put it this way, when asked to compare himself to the leader of Silo, the comparison company: "He was more of a show horse, whereas I was more of a plow horse."

Collins calls this combination of personal modesty and professional will "Level 5 Leadership."

Although they point to others when they talk about success, they take responsibility for the organization's failures by pointing to their own mistakes. Here is an example of such leadership from a nonprofit organization. In this case the organization took responsibility for its failure, and did not point to others to find fault.

"While we felt that the meeting went fine, we were quickly disabused. We got a scathing letter from one of the participants, and a general sense that we had failed to achieve our overall goal, which was to stimulate additional homeowner participation. How did we turn things around? We hosted a series of further group discussions... The topics have covered any areas of friction and concern. In particular, we have learned to bounce ideas for new initiatives off this group BEFORE we try them out, not after."

In such a case, leaders in another organization might have said: "they don't understand us." This organization took the stance of saying: "we don't understand them."

Lesson: As your staff assesses an activity, listen to the language they use. Are they taking responsibility, individually and collectively, for any lack of success; or are they pointing to external factors, such as inadequate media coverage or lack of support from a partner? Even if there are external forces at play, the real question is whether they see it as their responsibility to manage those forces.

II. First, Get the Right People on the Bus

The first priority of Good-to-Great leaders, before they develop a vision or plan for the organization, is to get the right leadership team on board. In fact, they often say they themselves are not sure where to take the organization, but that they are confident that the team, collectively, will make the right decisions.

Collins presents three practical disciplines for being rigorous in managing your staff.

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

Lesson: There is a natural desire to bring people along, to try to develop them into the kind of leaders you need. In some cases this may work. However, the Good-to-Great lesson is that the right people manage themselves. If you have someone you feel you need to spend time coaching or managing, then that person probably is wrong for the job. You owe it to yourself and the organization to get the right people on your leadership team, and the wrong people off. That's the only way you will make the leap to being a great organization.

III. Seek the Truth

Good-to-Great companies do not cover up bad news. On the contrary, they seek out the truth about themselves, so that they can learn and improve.

Many nonprofit organizations do this as well, but are inconsistent. Here are some comments from nonprofit directors:

"No, I do not believe we talk honestly about the organization's mistakes and failures. I think everyone is too busy worrying they might hurt someone's feelings about mistakes and failures that have occurred."

"We will usually acknowledge failures in an open and blame-free way, but we don't always make the necessary corrections based on what we have learned—we just 'move on'".

"I think that for us, the staff and board have an extremely accurate understanding about our successes and limitations. We are so small; have a very open culture; share, share, share financial information with all staff and board members; etc. that everyone is on the same page. We do talk honestly. The only difficult area to talk honestly about is mediocre performance."

Collins offers some suggestions on how to create a climate of truth-seeking in your organization.

- Lead with questions, not answers.
- Engage in dialogue and debate, not coercion.
- Conduct autopsies, without blame.
- Build "red flag" mechanisms.

This last one requires some explanation. Collins says that companies that fail rarely do so because they lack information. Rather, they refuse to listen. They fail to accept the brutal facts. He suggests that organizations create "red flag" mechanisms so that the facts cannot be ignored. He cites one company that used "short pay", giving customers discretion to decide how much to pay on an invoice, based on how satisfied they felt with the service. The company's president said: "You can get a lot of information from customer surveys, but there are always ways of explaining away the data. With short pay, you absolutely have to pay attention to the data."

Lesson: Honest assessment of performance, and a deep desire to learn from mistakes, are not practices that you do occasionally. They must be ingrained into the organization. Seeking the truth is not something to do, it is a way to be.

IV. Hedgehog Concept

Collins likens the Good-to-Great companies to hedgehogs: they are very good at doing one big thing. They are able to simplify a complex business into a single organizing concept that guides everything. This does not mean that the businesses themselves are uncomplicated. However, the Good-to-Great leaders are able to see through the complexity and discern the fundamental economic driver of the business.

Good-to-Great companies, after many iterations, are able to find a simple, three-part formula to drive the business:

- What they are passionate about
- What they can be best in the world at
- A simple financial measurement to track growth.

Most nonprofit leaders know about passion, have some sense of what they do well (although not necessarily what they can be best in the world at), and have developed diverse means of generating revenue. But they have not found a simple way of measuring success. None has a simple formula, like Walgreen's, that says if we have good profit per customer visit, then we know we're making money. Instead, most nonprofit organizations still struggle with detailed spread sheets, without a clear sense of what numbers are most important.

Nonprofit organizations have become engaged in measuring "outcomes" (e.g. the impact a program has on participants, as opposed to the number of people attending the program.) The intent is to insure that activities are judged, not only based on whether they pay for themselves, but also on whether they contribute to the organization's mission. Thus, measurement in nonprofits is becoming increasingly complex.

All of this attention to complex measurement stands in contradiction to what the good-to-great companies do. They keep it simple.

Lesson: A simple formula does not imply a simple business. $E=mc^2$ is a simple formula. Good-to-Great leaders continually analyze their numbers, until they really understand what drives their financial success. This goes hand in hand with learning from mistakes and figuring out what works. Nonprofit leaders should do the same.

V. Culture of Discipline

Good-to-Great companies have disciplined people, disciplined thinking, and disciplined action. People take responsibility for their performance, and for the performance of the whole organization. They are focused, committed, and they follow through.

Good-to-Great companies also have "stop doing" lists. This is part of the process they go through as they try things, learn from mistakes, and gain a clearer understanding of where they are going.

It is through incremental improvement that they succeed. For these companies, getting to "great" is a disciplined, cumulative process, action by action, decision by decision, building momentum like a flywheel, until they broke through and took off. Collins calls this the Flywheel Effect.

This contradicts the approach of some nonprofit leaders, who view the blockbuster program or the new building, as a way to make the leap to greatness. The lesson from Good-to-Great companies is that SUSTAINED growth only comes with patient, consistent, disciplined action. Like a flywheel, each small success increases the energy of the people in the organization, which leads to another success, and another, until (sometimes to their own amazement) they have outdistanced their rivals.

Lesson: If you have the right people, who want to know the truth and learn from their mistakes, then you have the basis for a culture of discipline. Don't go for quick, dramatic change. Go for continuous, cumulative, incremental improvement, and before you know it you will leap from being a good organization to being a great one.

Action

What can you, as a leader in your organization, do with the lessons from Good-to-Great? Here are some options you may want to consider.

- Read the book, share the key concepts with your leadership team, and start to develop a great team.

- Demonstrate a desire to learn from mistakes, by convening a meeting and asking for honest feedback on something that you have done recently.

- Create a culture of discipline. Begin the process by starting a "stop doing" list.