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

GOOD TO GREAT

JIM COLLINS

Coauthor of the bestselling *BUILT TO LAST*

GOOD TO

GREAT

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Make the Leap ...

and Others Don't

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HARPERBUSINESS

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Dedication

This book is dedicated to the Chimps.
I love you all, each and every one.

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MEMBERS OF THE *GOOD - TO - GREAT* RESEARCH TEAM
ASSEMBLED FOR TEAM MEETING, JANUARY 2000

First row: Vicki Mosur Osgood, Alyson Sinclair, Stefanie A. Judd, Christine Jones

Second row: Eric Hagen, Duane C. Duffy, Paul Weissman, Scott Jones, Weijia (Eve) Li

Third row: Nicholas M. Osgood, Jenni Cooper, Leigh Wilbanks, Anthony J. Chirikos

Fourth row: Brian J. Bagley, Jim Collins, Brian C. Larsen, Peter Van Genderen, Lane Hornung

Not pictured: Scott Cederberg, Morten T. Hansen, Amber L. Young

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Preface

As I was finishing this manuscript, I went for a run up a steep, rocky trail in Eldorado Springs Canyon, just south of my home in Boulder, Colorado. I had stopped on top at one of my favorite sitting places with a view of the high country still covered in its winter coat of snow, when an odd question popped into my mind: How much would someone have to pay me *not* to publish *Good to Great?*

It was an interesting thought experiment, given that I'd just spent the previous five years working on the research project and writing this book. Not that there isn't *some* number that might entice me to bury it, but by the time I crossed the hundred-million-dollar threshold, it was time to head back down the trail. Even that much couldn't convince me to abandon the project. I am a teacher at heart. As such, it is impossible for me to imagine not sharing what we've learned with students around the world. And it is in the spirit of learning and teaching that I bring forth this work.

After many months of hiding away like a hermit in what I call monk mode, I would very much enjoy hearing from people about what works for them and what does not. I hope you will find much of value in these pages and will commit to applying what you learn to whatever you do, if not to your company, then to your social sector work, and if not there, then at least to your own life.

—Jim Collins
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Boulder, Colorado
March 27, 2001

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Chapter 1
Good is the Enemy of Great

That's what makes death so hard—unsatisfied curiosity.

—BERYL MARKHAM,
West with the Night[1]

Good is the enemy of great.

And that is one of the key reasons why we have so little that becomes great.

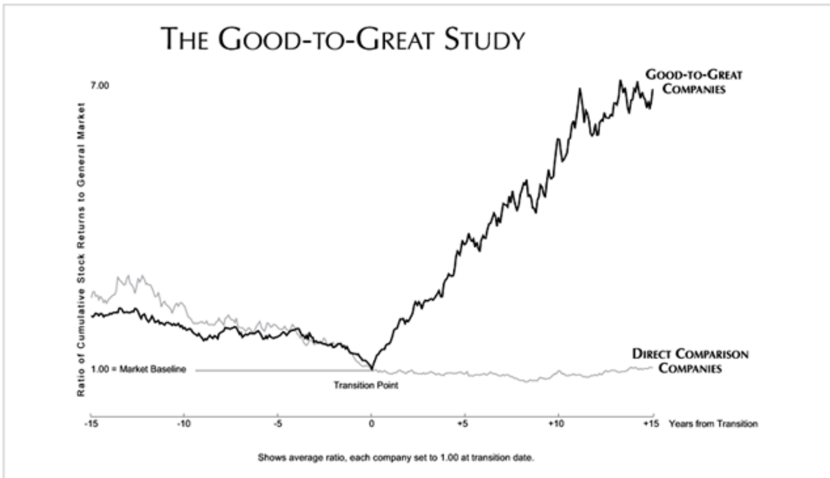
We don't have great schools, principally because we have good schools. We don't have great government, principally because we have good government. Few people attain great lives, in large part because it is just so easy to settle for a good life. The vast majority of companies never become great, precisely because the vast majority become quite good—and that is their main problem.

This point became piercingly clear to me in 1996, when I was having dinner with a group of thought leaders gathered for a discussion about organizational performance. Bill Meehan, the managing director of the San Francisco office of McKinsey & Company, leaned over and casually confided, "You know, Jim, we love *Built to Last* around here. You and your coauthor did a very fine job on the research and writing. Unfortunately, it's useless."

Curious, I asked him to explain.

"The companies you wrote about were, for the most part, always great," he said. "They never had to turn themselves from good companies into great companies. They had parents like David Packard and George Merck, who shaped the character of greatness from early on. But what about the vast majority of companies that wake up partway through life and realize that they're good, but not great?"

I now realize that Meehan was exaggerating for effect with his "useless" comment, but his essential observation was correct—that truly great companies, for the most part, have always been great. And the vast majority of good companies remain just that—good, but not great. Indeed, Meehan's comment proved to be an invaluable gift, as it planted the seed of a question that became the basis of this entire book—namely, Can a good company become a great company and, if so, how? Or is the disease of "just being good" incurable?



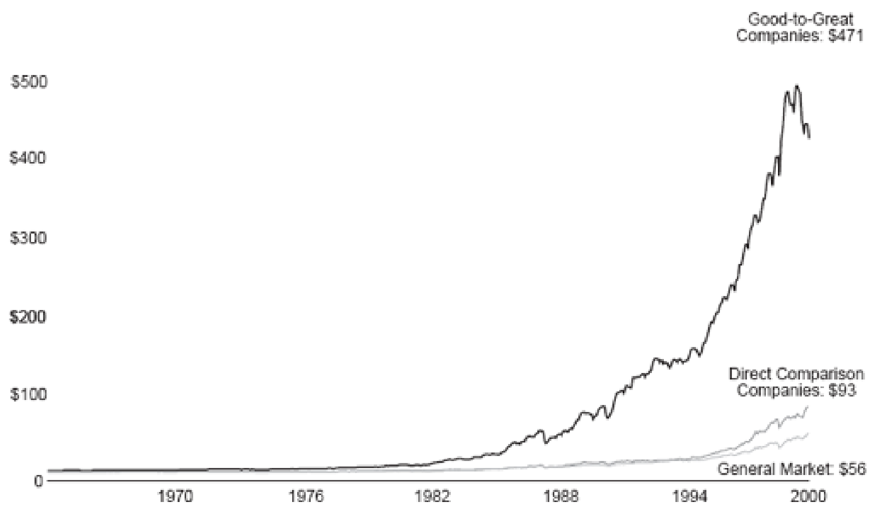
Five years after that fateful dinner we can now say, without question, that good to great *does* happen, and we've learned much about the underlying variables that make it happen. Inspired by Bill Meehan's challenge, my research team and I embarked on a five-year research effort, a journey to explore the inner workings of good to great.

To quickly grasp the concept of the project, look at the chart on page 2.[*] In essence, we identified companies that made the leap from good results to great results and sustained those results for at least fifteen years. We compared these companies to a carefully selected control group of comparison companies that failed to make the leap, or if they did, failed to sustain it. We then compared the good-to-great companies to the comparison companies to discover the essential and distinguishing factors at work.

The good-to-great examples that made the final cut into the study attained extraordinary results, averaging cumulative stock returns 6.9 times the general market in the fifteen years following their transition points.[2] To put that in perspective, General Electric (considered by many to be the best-led company in America at the end of the twentieth century) outperformed the market by 2.8 times over the fifteen years 1985 to 2000.[3] Furthermore, if you invested $1 in a mutual fund of the good-to-great companies in 1965, holding each company at the general market rate until the date of transition, and simultaneously invested $1 in a general market stock fund, your $1 in the good-to-great fund taken out on January 1, 2000, would have multiplied 471 times, compared to a 56 fold increase in the market.[4]

These are remarkable numbers, made all the more remarkable when you consider the fact that they came from companies that had previously been so utterly *un*remarkable. Consider just one case, Walgreens. For over forty years, Walgreens had bumped along as a very average company, more or less tracking the general market. Then in 1975, seemingly out of nowhere—bang!—Walgreens began to climb... and climb...and climb... and climb... and it just kept climbing. From December 31, 1975, to January 1, 2000, $1 invested in Walgreens beat $1 invested in technology superstar Intel by nearly two times, General Electric by nearly five times, Coca-Cola by nearly eight times, and the general stock market (including the NASDAQ stock run-up at the end of 1999) by over *fifteen* times.[*]

Cumulative Stock Returns of $1 Invested, 1965 – 2000



Notes:

1. $1 divided evenly across companies in each set, January 1, 1965.
2. Each company held at market rate of return, until transition date.
3. Cumulative value of each fund shown as of January 1, 2000.
4. Dividends reinvested, adjusted for all stock splits.

How on earth did a company with such a long history of being nothing special transform itself into an enterprise that outperformed some of the best-led organizations in the world? And why was Walgreens able to make the leap when other companies in the same industry with the same opportunities and similar resources, such as Eckerd, did *not* make the leap? This single case captures the essence of our quest.

This book is not about Walgreens per se, or any of the specific companies we studied. It is about *the question*–Can a good company become a great company and, if so, how?—and our search for timeless, universal answers that can be applied by any organization.

> Our five-year quest yielded many insights, a number of them surprising and quite contrary to conventional wisdom, but one giant conclusion stands above the others: We believe that almost *any* organization can substantially improve its stature and performance, perhaps even become great, if it conscientiously applies the framework of ideas we've uncovered.

This book is dedicated to teaching what we've learned. The remainder of this introductory chapter tells the story of our journey, outlines our research method, and previews the key findings. In chapter 2, we launch headlong into the findings themselves, beginning with one of the most provocative of the whole study: Level 5 leadership.

UNDAUNTED CURIOSITY

People often ask, "What motivates you to undertake these huge research projects?" It's a good question. The answer is, "Curiosity." There is nothing I find more exciting than picking a question that I don't know the answer to and embarking on a quest for answers. It's deeply satisfying to climb into the boat, like Lewis and Clark, and head west, saying, "We don't know what we'll find when we get there, but we'll be sure to let you know when we get back."

Here is the abbreviated story of this particular odyssey of curiosity.

Phase 1: The Search

With the question in hand, I began to assemble a team of researchers. (When I use "we" throughout this book, I am referring to the research team. In all, twenty-one people worked on the project at key points, usually in teams of four to six at a time.)

Our first task was to find companies that showed the good-to-great pattern exemplified in the chart on page 2. We launched a six-month "death march of financial analysis," looking for companies that showed the following basic pattern: fifteen-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next fifteen years. We picked fifteen years because it would transcend one-hit wonders and lucky breaks (you can't just be lucky for fifteen years) and would exceed the average tenure of most chief executive officers (helping us to separate great companies from companies that just happened to have a single great leader). We picked three times the market because it exceeds the performance of most widely acknowledged great companies. For perspective, a mutual fund of the following "marquis set" of companies beat the market by only 2.5 times over the years 1985 to 2000: 3M, Boeing, Coca-Cola, GE, Hewlett-Packard, Intel, Johnson & Johnson, Merck, Motorola, Pepsi, Procter & Gamble, Wal-Mart, and Walt Disney. Not a bad set to beat.

From an initial universe of companies that appeared on the Fortune 500 in the years 1965 to 1995, we systematically searched and sifted, eventually finding eleven good-to-great examples. (I've put a detailed description of our search in Appendix 1.A.) However, a couple of points deserve brief mention here. First, a company had to demonstrate the good-to-great pattern *independent of its industry*; if the whole industry showed the same pattern, we dropped the company. Second, we debated whether we should use additional selection criteria beyond cumulative stock returns, such as impact on society and employee welfare. We eventually decided to limit our selection to the good-to-great *results* pattern, as we could not conceive of any legitimate and consistent method for selecting on these other variables without introducing our own biases. In the last chapter, however, I address the relationship between corporate values and *enduring* great companies, but the focus of this particular research effort is on the very specific question of how to turn a good organization into one that produces sustained great results.

At first glance, we were surprised by the list. Who would have thought that Fannie Mae would beat companies like GE and Coca-Cola? Or that Walgreens could beat Intel? The surprising list—a dowdier group would be hard to find—taught us a key lesson right up front. It is possible to turn good into great in the most unlikely of situations. This became the first of many surprises that led us to reevaluate our thinking about corporate greatness.

GOOD-TO-GREAT CASES

Company	Results from Transition Point to 15 Years beyond Transition Point*	T Year to T Year + 15
Abbott	3.98 times the market	1974–1989
Circuit City	18.50 times the market	1982–1997
Fannie Mae	7.56 times the market	1984–1999
Gillette	7.39 times the market	1980–1995
Kimberly-Clark	3.42 times the market	1972–1987
Kroger	4.17 times the market	1973–1988
Nucor	5.16 times the market	1975–1990
Philip Morris	7.06 times the market	1964–1979
Pitney Bowes	7.16 times the market	1973–1988
Walgreens	7.34 times the market	1975–1990
Wells Fargo	3.99 times the market	1983–1998

*Ratio of cumulative stock returns relative to the general stock market.

Phase 2: Compared to What?

Next, we took perhaps the most important step in the entire research effort: contrasting the good-to-great companies to a carefully selected set of "comparison companies." The crucial question in our study is *not*, What did the good-to-great companies share in common? Rather, the crucial question is, What did the good-to-great companies share in common that *distinguished* them from the comparison companies? Think of it this way: Suppose you wanted to study what makes gold medal winners in the Olympic Games. If you only studied the gold medal winners by themselves, you'd find that they all had coaches. But if you looked at the athletes that made the Olympic team, but never won a medal, you'd find that they *also* had coaches! The key question is, What systematically *distinguishes* gold medal winners from those who never won a medal?

We selected two sets of comparison companies. The first set consisted of "direct comparisons"—companies that were in the same industry as the good-to-great companies with the same opportunities and similar resources at the time of transition, but that showed no leap from good to great. (See Appendix 1.B for details of our selection process.) The second consisted of "unsustained comparisons"—companies that made a short-term shift from good to great but failed to maintain the trajectory—to address the question of sustainability. (See Appendix 1.C.) In all, this gave us a total study set of twenty-eight companies: eleven good-to-great companies, eleven direct comparisons, and six unsustained comparisons.

THE ENTIRE STUDY SET

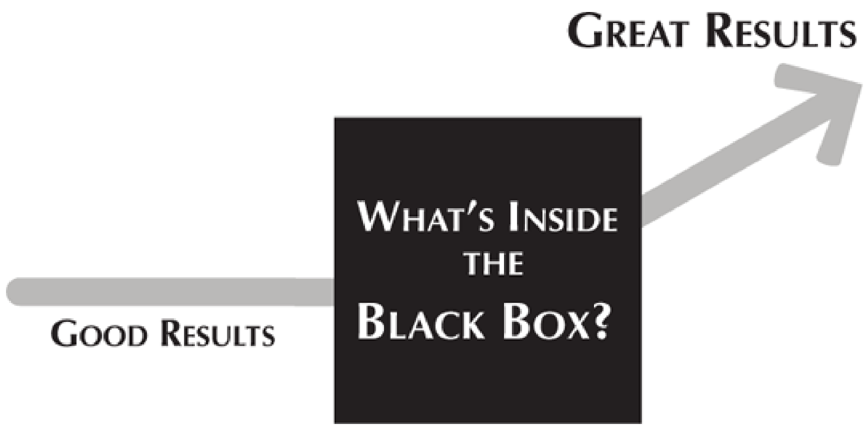
Good-to-Great Companies	*Direct Comparisons*
Abbott	Upjohn
Circuit City	Silo
Fannie Mae	Great Western
Gillette	Warner-Lambert
Kimberly-Clark	Scott Paper
Kroger	A&P
Nucor	Bethlehem Steel
Philip Morris	R. J. Reynolds
Pitney Bowes	Addressograph
Walgreens	Eckerd
Wells Fargo	Bank of America

Unsustained Comparisons
Burroughs
Chrysler
Harris
Hasbro
Rubbermaid
Teledyne

Phase 3: Inside the Black Box

We then turned our attention to a deep analysis of each case. We collected all articles published on the twenty-eight companies, dating back fifty years or more. We systematically coded all the material into categories, such as strategy, technology, leadership, and so forth. Then we interviewed most of the good-to-great executives who held key positions of responsibility during the transition era. We also initiated a wide range of qualitative and quantitative analyses, looking at everything from acquisitions to executive compensation, from business strategy to corporate culture, from layoffs to leadership style, from financial ratios to management turnover. When all was said and done, the total project consumed 10.5 people years of effort. We read and systematically coded nearly 6,000 articles, generated more than 2,000 pages of interview transcripts, and created 384 million bytes of computer data. (See Appendix 1.D for a detailed list of all our analyses and activities.)

We came to think of our research effort as akin to looking inside a black box. Each step along the way was like installing another lightbulb to shed light on the inner workings of the good-to-great process.



With data in hand, we began a series of weekly research-team debates. For each of the twenty-eight companies, members of the research team and I would systematically read all the articles, analyses, interviews, and the research coding. I would make a presentation to the team on that specific company, drawing potential conclusions and asking questions. Then we would debate, disagree, pound on tables, raise our voices, pause and reflect, debate some more, pause and think, discuss, resolve, question, and debate yet again about "what it all means."

> It is important to understand that we developed all of the concepts in this book by making *empirical* deductions *directly from the data.* We did not begin this project with a theory to test or prove. We sought to build a theory from the ground up, derived directly from the evidence.

The core of our method was a systematic process of contrasting the good-to-great examples to the comparisons, always asking, "What's different?"

We also made particular note of "dogs that did not bark." In the Sherlock Holmes classic *"The Adventure of Silver Blaze,"* Holmes identified "the curious incident of the dog in the night-time” as the key clue. It turns out that the dog did nothing in the nighttime and *that*, according to Holmes, was the curious incident, which led him to the conclusion that the prime suspect must have been someone who knew the dog well.

In our study, what we *didn’t* find—dogs that we might have expected to bark but didn’t—turned out to be some of the best clues to the inner workings of good to great. When we stepped inside the black box and turned on the lightbulbs, we were frequently just as astonished at what we did *not* see as what we did. For example:

- Larger-than-life, celebrity leaders who ride in from the outside are *negatively* correlated with taking a company from good to great. Ten of eleven good-to-great CEOs came from inside the company, whereas the comparison companies tried outside CEOs six times more often.
- We found no systematic pattern linking specific forms of executive compensation to the process of going from good to great. The idea that the structure of executive compensation is a key driver in corporate performance is simply not supported by the data.
- Strategy per se did not separate the good-to-great companies from the comparison companies. Both sets of companies had well-defined strategies, and there is no evidence that the good-to-great companies spent more time on long-range strategic planning than the comparison companies.
- The good-to-great companies did not focus principally on what to *do* to become great; they focused equally on what *not* to do and what to *stop* doing.
- Technology and technology-driven change has virtually nothing to do with igniting a transformation from good to great. Technology can *accelerate* a transformation, but technology cannot *cause* a transformation.
- Mergers and acquisitions play virtually no role in igniting a transformation from good to great; two big mediocrities joined together never make one great company.
- The good-to-great companies paid scant attention to managing change, motivating people, or creating alignment. Under the right conditions, the problems of commitment, alignment, motivation, and change largely melt away.
- The good-to-great companies had no name, tag line, launch event, or program to signify their transformations. Indeed, some reported being unaware of the magnitude of the transformation at the time; only later, in

retrospect, did it become clear. Yes, they produced a truly revolutionary leap in results, but *not* by a revolutionary process.

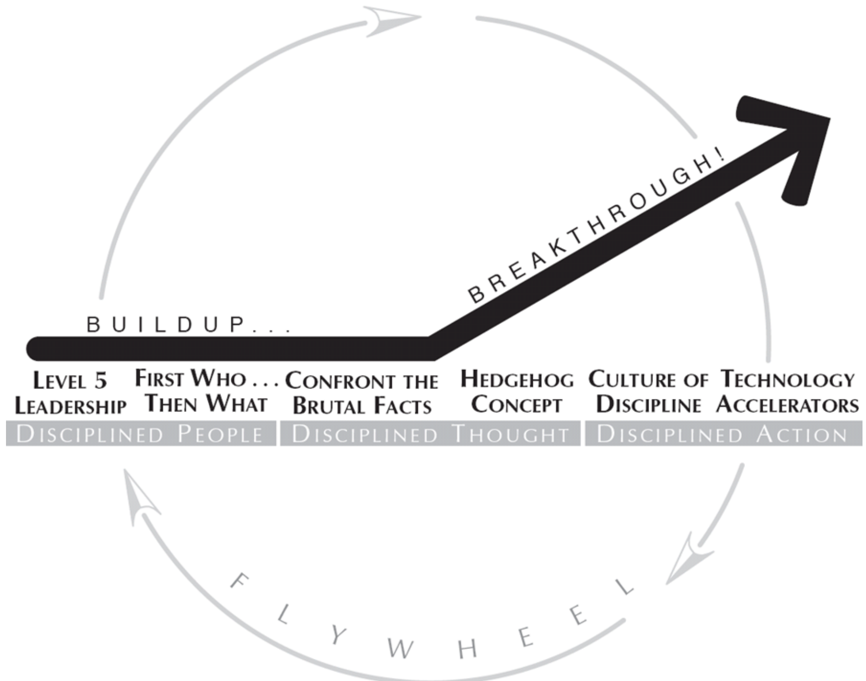
• The good-to-great companies were not, by and large, in great industries, and some were in terrible industries. In no case do we have a company that just happened to be sitting on the nose cone of a rocket when it took off. Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice.

Phase 4: Chaos to Concept

I've tried to come up with a simple way to convey what was required to go from all the data, analyses, debates, and "dogs that did not bark" to the final findings in this book. The best answer I can give is that it was an iterative process of looping back and forth, developing ideas and testing them against the data, revising the ideas, building a framework, seeing it break under the weight of evidence, and rebuilding it yet again. That process was repeated over and over, until everything hung together in a coherent framework of concepts. We all have a strength or two in life, and I suppose mine is the ability to take a lump of unorganized information, see patterns, and extract order from the mess—to go from chaos to concept.

That said, however, I wish to underscore again that the concepts in the final framework are not my "opinions." While I cannot extract my own psychology and biases entirely from the research, each finding in the final framework met a rigorous standard before the research team would deem it significant. Every primary concept in the final framework showed up as a change variable in 100 percent of the good-to-great companies and in less than 30 percent of the comparison companies during the pivotal years. Any insight that failed this test did not make it into the book as a chapter-level concept.

Here, then, is an overview of the framework of concepts and a preview of what's to come in the rest of the book. (See the diagram below.) Think of the transformation as a process of buildup followed by breakthrough, broken into three broad stages: disciplined people, disciplined thought, and disciplined action. Within each of these three stages, there are two key concepts, shown in the framework and described below. Wrapping around this entire framework is a concept we came to call the flywheel, which captures the gestalt of the entire process of going from good to great.



Level 5 Leadership. We were surprised, shocked really, to discover the type of leadership required for turning a good company into a great one. Compared to high-profile leaders with big personalities who make headlines and become celebrities, the good-to-great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy—these leaders are a paradoxical blend of personal humility and professional will. They are more like Lincoln and Socrates than Patton or Caesar.

First Who ... Then What. We expected that good-to-great leaders would begin by setting a new vision and strategy. We found instead that they *first* got the right people on the bus, the wrong people off the bus, and the right people in the right seats—and *then* they figured out where to drive it. The old adage "People are your most important asset" turns out to be wrong. People are not your most important asset. The *right* people are.

Confront the Brutal Facts (Yet Never Lose Faith). We learned that a former prisoner of war had more to teach us about what it takes to find a path to greatness than most books on corporate strategy. Every good-to-great company embraced what we came to call the Stockdale Paradox: You must maintain unwavering faith that you 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 your current reality, whatever they might be.

The Hedgehog Concept (Simplicity within the Three Circles). To go from good to great requires transcending the curse of competence. Just because something is your core business—just because you've been doing it for years or perhaps even decades—does not necessarily mean you can be the best in the world at it. And if you cannot be the best in the world at your core business, then your core business absolutely cannot form the basis of a great company. It must be replaced with a simple concept that reflects deep understanding of three intersecting circles.

A Culture of Discipline. All companies have a culture, some companies have discipline, but few companies have a *culture of discipline*. When you have disciplined people, you don't need hierarchy. When you have disciplined thought, you don't need bureaucracy. When you have disciplined action, you don't need excessive controls. When you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance.

Technology Accelerators. Good-to-great companies *think* differently about the role of technology. They never use technology as the primary means of igniting a transformation. Yet, paradoxically, they are pioneers in the application of *carefully selected* technologies. We learned that technology by itself is never a primary, root cause of either greatness or decline.

The Flywheel and the Doom Loop. Those who launch revolutions, dramatic change programs, and wrenching restructurings will almost certainly fail to make the leap from good to great. 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 one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond.

From Good to Great to Built to Last. In an ironic twist, I now see *Good to Great* not as a sequel to *Built to Last*, but as more of a *prequel*. This book is about how to turn a good organization into one that produces sustained great results. *Built to Last* is about how you take a company with great results and turn it into an *enduring* great company of iconic stature. To make that final shift requires core values and a purpose beyond just making money combined with the key dynamic of preserve the core / stimulate progress.

Good to Great Concepts	→	Sustained Great Results	+	*Built to Last* Concepts	→	Enduring Great Company

If you are already a student of *Built to Last*, please set aside your questions about the precise links between the two studies as you embark upon the findings in *Good to*

Great. In the last chapter, I return to this question and link the two studies together.

THE TIMELESS "PHYSICS" OF GOOD TO GREAT

I had just finished presenting my research to a set of Internet executives gathered at a conference, when a hand shot up. "Will your findings continue to apply in the new economy? Don't we need to throw out all the old ideas and start from scratch?" It's a legitimate question, as we do live in a time of dramatic change, and it comes up so often that I'd like to dispense with it right up front, before heading into the meat of the book.

Yes, the world is changing, and will continue to do so. But that does not mean we should stop the search for timeless principles. Think of it this way: While the practices of engineering continually evolve and change, the laws of physics remain relatively fixed. I like to think of our work as a search for timeless principles—the enduring physics of great organizations—that will remain true and relevant no matter how the world changes around us. Yes, the specific application will change (the engineering), but certain immutable laws of organized human performance (the physics) will endure.

The truth is, there's nothing new about being in a new economy. Those who faced the invention of electricity, the telephone, the automobile, the radio, or the transistor—did they feel it was any less of a new economy than we feel today? And in each rendition of the new economy, the best leaders have adhered to certain basic principles, with rigor and discipline.

Some people will point out that the scale and pace of change is greater today than anytime in the past. Perhaps. Even so, some of the companies in our good-to-great study faced rates of change that rival anything in the new economy. For example, during the early 1980s, the banking industry was completely transformed in about three years, as the full weight of deregulation came crashing down. It was certainly a new economy for the banking industry! Yet Wells Fargo applied every single finding in this book to produce great results, right smack in the middle of the fast-paced change triggered by deregulation.

> As you immerse yourself in the coming chapters, keep one key point in mind. This book is not about the old economy. Nor is it about the new economy. It is not even about the companies you're reading about, or even about business per se. It is ultimately about one thing: the timeless principles of good to great. It's about how you take a good organization and turn it into one that produces sustained great results, using whatever definition of results best applies to your organization.

This might come as a surprise, but I don't primarily think of my work as about the study of business, nor do I see this as fundamentally a business book. Rather, I see my work as being about discovering what creates enduring great organizations of *any* type. I'm curious to understand the fundamental differences between great and good, between excellent and mediocre. I just happen to use corporations as a means of getting inside the black box. I do this because publicly traded corporations, unlike other types of organizations, have two huge advantages for research: a widely agreed upon definition of results (so we can rigorously select a study set) and a plethora of easily accessible data.

That good is the enemy of great is not just a business problem. It is a *human* problem. If we have cracked the code on the question of good to great, we should have something of value to any type of organization. Good schools might become great schools. Good newspapers might become great newspapers. Good churches might become great churches. Good government agencies might become great agencies. And good companies might become great companies.

So, I invite you to join me on an intellectual adventure to discover what it takes to turn good into great. I also encourage you to question and challenge what you learn. As one of my favorite professors once said, "The best students are those who never quite believe their professors." True enough. But he also said, "One ought not to reject the data merely because one does not like what the data implies." I offer everything herein for your thoughtful consideration, not blind acceptance. You're the judge and jury. Let the evidence speak.

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*A description of how the charts on pages 2 and 4 were created appears in chapter 1 notes at the end of the book.

*Calculations of stock returns used throughout this book reflect the total cumulative return to an investor, dividends reinvested and adjusted for stock splits. The "general stock market" (often referred to as simply "the market") reflects the totality of stocks traded on the New York Exchange, American Stock Exchange, and NASDAQ. See the notes to chapter 1 for details on data sources and calculations.