Good to Great

MJK Finvestment
Simplicity Trumps Complexity

Book Summary 2019-2020

The author of this book begins by saying *good* is the enemy of *great*. The reason we do not have great schools is principally because we have good schools. 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. The 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.

The author then lists a framework that can be used to identify great companies:

Phase 1: The search

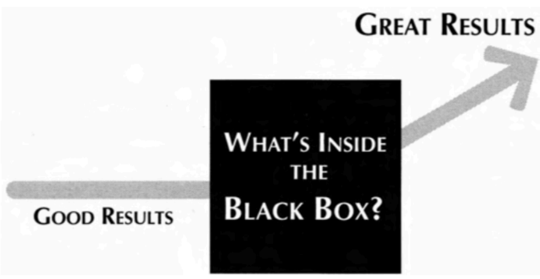
Looking for companies that showed the following basic pattern: fifteen-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next fifteen years.

To qualify, a company had to demonstrate the good-to-great pattern *independent* of *its industry;* if the whole industry showed the same pattern, the company was dropped.

Phase 2: Compared to what?

The crucial question is not, what did the good-to-great companies share in common that *distinguished* them from the comparison companies.

Phase 3: Inside the black box



A deep analysis of each case by collecting 15 year or more past data. Then 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.

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.

Phase 4: Chaos to Concept

- **Level 5 leadership:** 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.
- **First who… Then what:** It is normally expected good-to-great leaders begin by setting a vision and strategy. Instead, 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 the bus.
- **Confront the brutal facts (Yet Never Lose Faith):** Maintain unwavering faith that you can and will prevail in the end, regardless of 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 Three Circles):** To go from good-to-great requires transcending the curse of competence. Just because something is your core business - just because you have doing it for years or perhaps even decades – does not necessarily mean you can be the best in the world at it.
- **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. Technology by itself is never a primary, root cause of either greatness or decline.

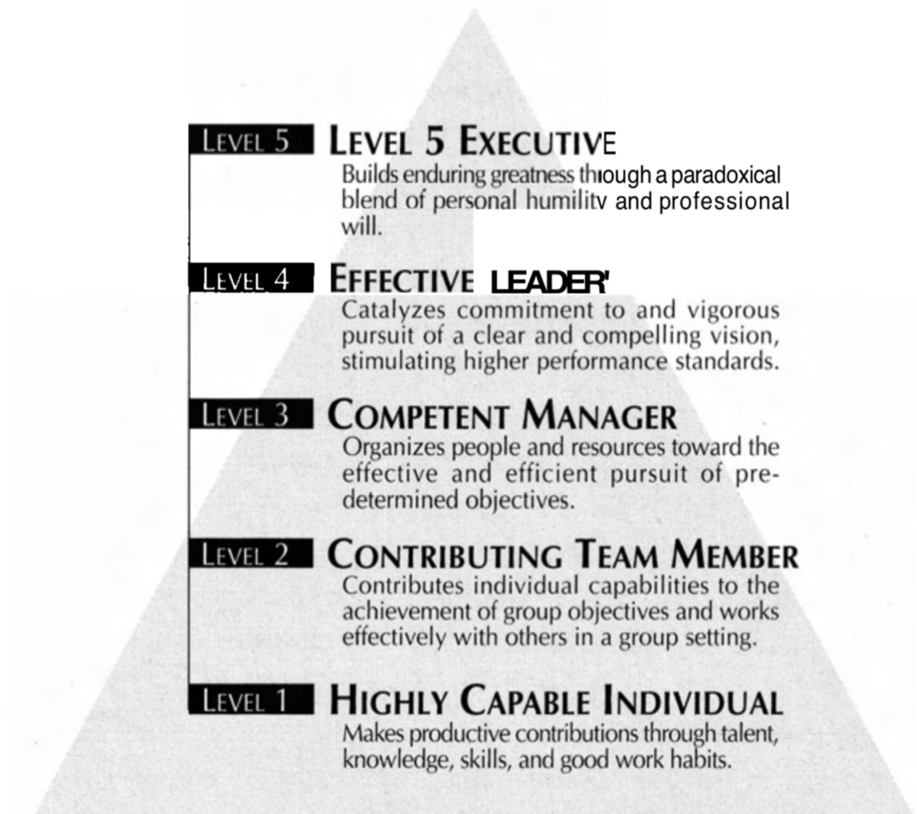
- **The Flywheel and Doom Loop:** Those who launch revolutions, dramatic change programs, and wrenching restructurings will almost certainly fail to make the leap from good to great.
- **From Good *to* Great *to* Built to Last:** To make that final shift requires core values and a purpose beyond just making money combined with the key dynamic of preserve the core / stimulate progress.

While going to the next part of this summary, keep one key point in mind. This book is about 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. We will discuss each part of phase 4 in detail

Level 5 Leadership

Below are mentioned several qualities of Level 5 leader.

- Level 5 leaders channel their ego away from themselves and into larger goal of building a great company. It is not that level 5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious – but *their ambition is first and foremost for the institution, not themselves.*



- Good-to-great leaders didn't talk about themselves. During interviews, the good-to-great leaders talk about the company and the contributions of other executives as long as they would like but deflect discussion about their own contributions. It wasn't just false modesty. Those who worked with or wrote about the good-to-great leaders continually used words like quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated, did not believe his own clippings; and so forth.
- Level 5 leaders are fanatically driven, infected with an incurable need to produce results. They will sell the mills or fire their brother, if that's what it takes to make the

company great. They would *not* blame something or someone outside themselves for poor results, and would *not* preen in front of the mirror and credit themselves when things go well. They would rather blame themselves, taking full responsibility for failure.

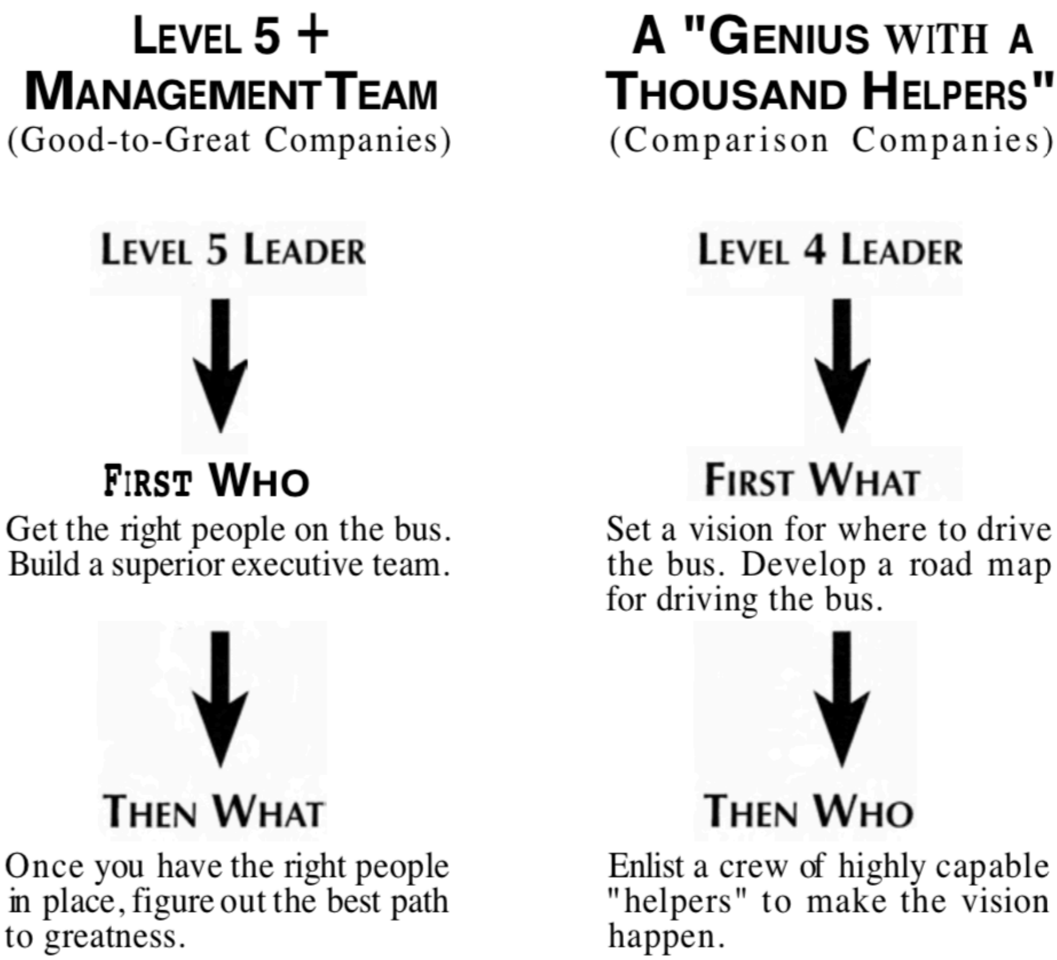
The author ends this chapter by mentioning a realistic point that it is damaging trend in recent history to select dazzling, celebrity leaders and to de-select potential level 5 leaders. This celebrity leaders are *negatively* correlated with going from good to great.

Professional Will	**Personal Humility**
Creates superb results, a clear catalyst in the transition from good to great.	Demonstrates a compelling modesty, shunning public adulation; never boastful.
Demonstrates an unwavering resolve to do whatever must be done to produce the best long-term results, no matter how difficult.	Acts with quiet, calm determination; relies principally on inspired standards, not inspiring charisma, to motivate.
Sets the standard of building an enduring great company; will settle for nothing less.	Channels ambition into the company, not the self; sets up successors for even greater success in the next generation.
Looks in the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, external factors, or bad luck.	Looks out the window, not in the mirror, to apportion credit for the success of the company—to other people, external factors, and good luck.

First Who... Then What

The main emphasis of this section is not just about assembling the right team – that's nothing new. The main point is to first get the right people on the bus (and the wrong people of the bus) before you figure out where to drive it. The second key point is the degree of *sheer rigor* needed in people decisions in order to take a company from good to great.

The focus here is to hire outstanding people whenever and wherever they are found, often without any specific job in mind. That's how future is built of a company. It's hard to see to see the changes that are coming, they will come inevitably. Outstanding people hired will be flexible enough to deal with them.



In determining "the right people," the good-to-great companies placed greater weight on character attributes than on specific educational background, practical skills, specialized knowledge, or work experience.

The author found no systematic pattern linking executive compensation to the process of going from good to great. The evidence simply does not support the idea that the specific structure of executive compensation acts as a key lever in taking a company from good to great. The only significant difference we found was that the good-to-great executives received slightly less total cash compensation ten years after the transition than their counterparts at the still mediocre comparison companies.

The author asks companies to be rigorous and not ruthless. By this means firing and cutting, especially in difficult times, or want to only fire people without any thoughtful consideration. To be rigorous means consistently applying exacting standards at all times and at all levels, especially in upper management. This also means that the best people need not worry about their positions and can concentrate fully on their work.

How can companies be rigorous:

1) *When in doubt, don't hire – keep looking*
2) *When you know you need to make people change, act*

   The moment you feel the need to tightly manage someone, you've made a hiring mistake. The best people don't need to be managed. People either stayed on the bus for a long time or got off the bus in a hurry. In other words, good to great companies did not churn more, they churned better.

3) *Put your best people on your biggest opportunities, not biggest problems*

Confront the Brutal Facts

Every great and good company desires to pursue vision of greatness and there is nothing wrong with it. After all, the good-to-great companies also set out to create greatness. But unlike the comparison companies, good-to-great companies continually refine the *path* to greatness with the brutal facts of reality. Companies must confront the brutal facts of reality head-on and completely change its entire system in response rather than stick its head in the sand.

The company must start with an honest and diligent effort to determine truth of its situation, the right decisions often become evident. It is impossible to make good decision without infusing the entire process with an honest confrontation of the brutal facts.

Creating a climate where the truth is heard. Below are 4 practices author discus's:

1) Lead with questions, not answers

   The good-to-great leaders made particularly good use of informal meetings where they'd meet with groups of managers and employees with no script, agenda, or set of action items to discuss. Instead, they would start with questions like:

   "So, what's on your mind?"
   "Can you tell me about that?"
   "Can you help me understand?"
   "What should we be worried about?

2) Engage in dialogue and debate

   All good to great companies had a penchant for intense dialogue. Phrases like "loud debate", "heated discussions", and "healthy conflict" peppered the articles and interview transcripts from all the companies. They didn't use discussion as a sham process to let people "have their say" so that they could "buy in" to a predetermined decision. The process was more like a heated scientific debate with people engaged in a search for the best answers.

3) Conduct autopsies without blame

When you conduct autopsies without blame, you go a long way toward creating a climate where the truth is heard. If there are right people on the bus, should almost never assign blame but need only to search for understanding and learning.

4) Build *"red flag"* mechanism

The good to great companies had *no* more or better information than the comparison companies. Both sets of companies had virtually identical access to good information. The key, then, lies not in better information, but in turning information into information *that cannot be ignored.*

Towards the end of this section, the author introduces a very strong concept called "*The stockdale paradox". The image below defines it in the most apt way.

The Stockdale Paradox

Retain faith that you will prevail in the end, regardless of the difficulties.	*AND at the same time*	Confront the most brutal facts of your current reality, whatever they might be.

The Hedgehog Concept

This is a concept based on Hedgehog versus a fox. The fox sits cunningly silent waiting to pounce on Hedgehog. While fox looks like the obvious winner, hedgehog knowing little how to sense danger always wins. Hedgehog sensing danger becomes a sphere of sharp spikes to protect himself. What does all this talk of Hedgehogs and foxes have to do with good to great companies?

Those who built good to great companies were, to one degree, or another, hedgehogs. They used their hedgehog nature to drive toward what we came to call hedgehog concept of their companies. Those who led the comparison tended to be foxes, never gaining the clarifying advantage of a hedgehog concept, being instead scattered, diffused and inconsistent.

A hedgehog concept is not a goal to be the best, a strategy to be the best, an intention to be the best, a plan to be the best. It is *understanding* of what you can be the best at. The distinction is absolutely crucial.

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 can be called 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.

1) *What you can be best in the world at (and, equally important you cannot be the best in the world at)*

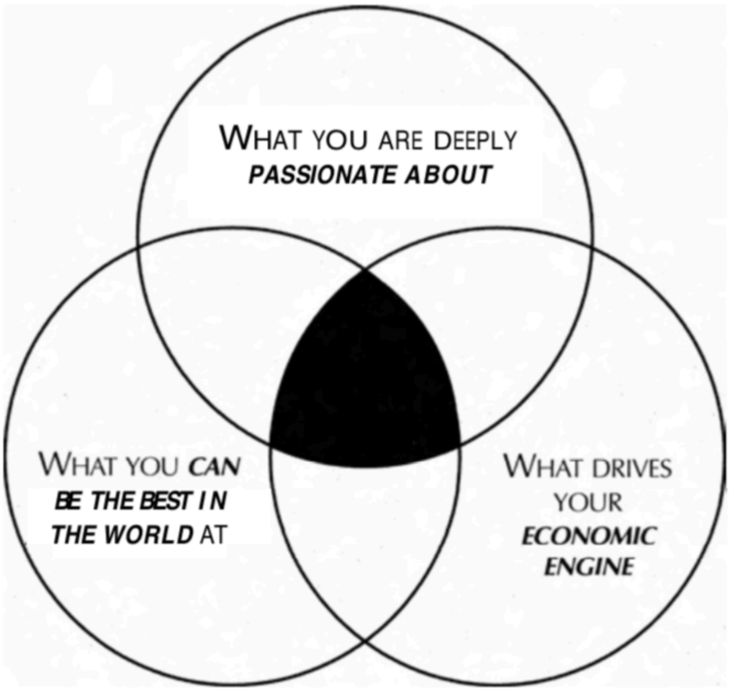
   Just because you possess a core competence doesn't necessarily mean you can be the best in the world at it. Conversely, what you can be the best at might not even be something in which you are currently engaged.

2) *What drives your economic engine*

   All the good-to-great companies attained piercing insight into how to most effectively generate sustained and robust cash flow and profitability.

3) What are you deeply passionate about

Good-to-great companies focused on activities that ignited passion.



THREE CIRCLES OF THE HEDGEHOG CONCEPT

The intersection of these the above three circles when translated into simple, crystalline concept that guided life choices, you'd have a hedgehog concept for yourself.

To have a fully developed Hedgehog Concept, you need all three circles. If you make a lot of money doing things at which you could never be the best, you'll only build a successful company, not a great one. If you become the best at something, you'll never remain on top if you don't have intrinsic passion for what you are doing. Finally, you can be passionate all you want, but if you can't be the best at it or it doesn't make economic sense, then you might have a lot of fun, but you won't produce great results.

What can you be the best in the world at?

Every company would like to be the best at something, but few actually understand - with piercing insight and egoless clarity - what they actually have the potential to be the best at and, just as important, what they cannot be the best at. And it is this distinction that stands as one of the primary contrasts between the good-to-great companies and the comparison companies.

What is your economic engine?

A company does not need to be in a great industry to become a great company. Each good-to-great company built a fabulous economic engine, regardless of the industry. They were able to do this because they attained profound insights into their economics.

For example: Nucor a steel company understood that the driving force in its economic engine was a combination of a strong-work-ethic culture and the application of advanced manufacturing technology. Profit per employee or per fixed cost would not capture this duality as well as profit per ton of finished steel.

Understanding your passion

The passion circle can be focused equally on what the company stands for. For example, the Fannie Mae (mortgage lending company) people were not passionate about the mechanical process of packaging mortgages into market securities. But they were terrifically motivated by the whole idea of helping people of all classes, backgrounds, and races realize the American dream of owning their home.

To conclude, good-to-great companies are more like hedgehogs – simple dowdy creatures that know "one thing" and stick to it. The comparison are more like foxes – crafty, cunning creatures that know many things yet lack consistency.

A culture of discipline

Most companies build their bureaucratic rules to manage the small percentage of wrong people on the bus, which in turn drives away the right people on the bus, which then increases the percentage of wrong people on the bus, which increases the need for more bureaucracy to compensate for incompetence and lack of discipline, which then further drives the right people away, and so forth. Avoid bureaucracy and hierarchy and instead create a culture of discipline. When you put these two complementary forces together - a culture of discipline with an ethic of entrepreneurship- you get a magical alchemy of superior performance and sustained results.

More precisely, this means the following:

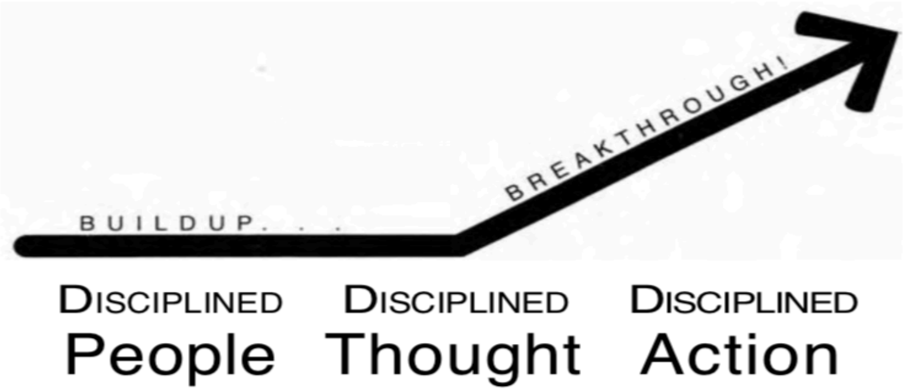
1. Build a culture around the idea of freedom and responsibility, within a framework. Self-disciplined people need not be managed.

2. Fill that culture with self-disciplined people who are willing to go to extreme lengths to fulfil 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. Equally important, create a "stop doing list" and systematically unplug anything extraneous.

In a sense, much of this book is about creating a culture of discipline. It all starts with disciplined people. The transition begins not by trying to discipline the wrong people into the right behaviour, but by getting self-disciplined people on the bus in the first place. Next we have disciplined thought. You need the discipline to confront the brutal facts of reality, while retaining resolute faith that you can and will create a path to greatness. Most importantly, you need the discipline to persist in the search for understanding until you get your Hedgehog Concept. Finally, we have disciplined action, the primary subject of this chapter. This order is important. The comparison companies often tried to jump right to disciplined action. But disciplined action without self-disciplined people is impossible to sustain, and disciplined action without disciplined thought is a recipe for disaster.



The good-to-great companies at their best followed a simple mantra: "Anything that does not fit with hedgehog concept, will not do it". They will not launch unrelated business, unrelated acquisitions and unrelated joint ventures. If it doesn't fit, it is not done.

A great company is much more likely to die of indigestion from too much opportunity than starvation from too little. The challenge becomes not opportunity creation, but opportunity selection. The fact that something is a "once-in-a-lifetime opportunity" is irrelevant if it doesn't fit within the three circles.

In good-to-great transformation, budgeting is a discipline to decide which arenas *should be fully funded* and which *should not be funded* at all. In other words, the budget process is not about figuring out how much each activity gets, but about determining which activities best support the hedgehog concept and should be fully strengthened and which should be eliminated entirely. For example: Kimberly-Clark didn't just reallocate resources from the paper business to the consumer business. It completely *eliminated* the paper business, sold the mills, and invested all the money into the emerging consumer business.

Technology Accelerators

To make technology productive in a transformation from good to great means asking the following questions. 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, then ask, do you need this technology at all? If yes, then all you need is parity. (You don't necessarily need the world's most advanced phone system to be a great company.) If no, then the technology is irrelevant, and you can ignore it. Once Nucor executive summed up, “Twenty percent of our success is the new technology we embrace.. [but] eighty percent of our success is in the culture of our company.

“80 percent of the good-to-great executives interviews didn’t even mention technology as one of the top five factors in transition. Furthermore, in the cases where they did mention technology, it had a median ranking of fourth, with only two executives of eighty-four interviewed ranking it number one.”

No technology, no matter how amazing -- not computers, not telecommunications, not robotics, not the Internet -- can by itself ignite a shift from good to great. No technology can make you Level 5. No technology can turn the wrong people into the right people. No technology can instil the discipline to confront brutal facts of reality, nor can it instil unwavering faith. No technology can supplant the need for deep understanding of the three circles and the translation of that understanding into a simple Hedgehog Concept. No technology can create a culture of discipline. No technology can instil the simple inner belief that leaving unrealized potential on the table -- letting something remain good when it can become great -- is a secular sin.

Those that stay true to these fundamentals and maintain their balance, even in times of great change and disruption, will accumulate the momentum that creates breakthrough momentum. Those that, do not, those that fall into reactionary lurching about, will spiral downward or remain mediocre. This is the big-picture difference between great and good, the gestalt of the whole study captured in the metaphor of the fly-wheel versus the doom loop. And it is to that overarching contrast that we now turn.

The Flywheel and the Doom Loop

Good to great comes about by a cumulative process- step by step, action by action, decision by decision, turn by turn of the flywheel- that adds up to sustained and spectacular results.

The good-to-great companies had no name for their transformations. There was no launch event, no tag line, no programmatic feel whatsoever. Some executives said that they weren't aware that a major transformation was underway until they were well into it. It was often more obvious to them after the fact than at the time.

At Circuit City, the build-up stage lasted nine years, at Nucor ten years, whereas at Gillette it took only five years, at Fannie Mae only three years, and at Pitney Bowes about two years. But, no matter how short or long it took, every good-to-great transformation followed the same basic pattern- accumulating momentum, turn by turn of the flywheel- until build-up transformed into breakthrough.

The good-to-great companies were subject to the same short-term pressures from Wall Street as the comparison companies. Yet, unlike the comparison companies, they had the patience and discipline to follow the buildup-breakthrough flywheel model despite these pressures. And in the end, they attained extraordinary results by Wall Street's own measure of success.

The good-to-great companies tended not to publicly proclaim big goals at the outset. Rather, they began to spin the flywheel- understanding to action, step after step, turn after turn. After the flywheel built up momentum, they'd look up and say, "Hey, if we just keep pushing on this thing, there's no reason we can't accomplish X."

The flywheel is a wraparound idea where each piece of the system reinforces the other parts of the system to form an integrated whole that is much more powerful than the sum of the parts.

HOW TO TELL IF YOU'RE ON THE FLYWHEEL OR IN THE DOOM LOOP

Signs That You're on the Flywheel (Good-to-Great Companies)	Signs That You're in the **Doom** Loop (Comparison Companies)
Follow a pattern of buildup leading to breakthrough.	Skip buildup and jump right to breakthrough.
Reach breakthrough by an accumulation of steps, one after the other, turn by turn of the flywheel; feels like an organic evolutionary process.	Implement big programs, radical change efforts, dramatic revolutions; chronic restructuring—always looking for a miracle moment or new savior.
Confront the brutal facts to see clearly what steps must be taken to build momentum.	Embrace fads and engage in management hoopla, rather than confront the brutal facts.
Attain consistency with a clear Hedgehog Concept, resolutely staying within the three circles.	Demonstrate chronic inconsistency—lurching back and forth and straying far outside the three circles.
Follow the pattern of disciplined people ("first who"), disciplined thought, disciplined action.	Jump right to action, without disciplined thought and without first getting the right people on the bus.
Harness appropriate technologies to your Hedgehog Concept, to accelerate momentum.	Run about like Chicken Little in reaction to technology change, fearful of being left behind.
Make major acquisitions *after* breakthrough (if at all) to accelerate momentum.	Make major acquisitions before breakthrough, in a doomed attempt to create momentum.
Spend little energy trying to motivate or align people; the momentum of the flywheel is infectious.	Spend a lot of energy trying to align and motivate people, rallying them around new visions.

The flywheel all starts with Level 5 leaders, who naturally gravitate toward the flywheel model. They're less interested in flashy programs that make it look like they are Leading with a capital L. They're more interested in the quiet, deliberate process of pushing on the flywheel to produce Results with a capital R. While the doom loop followed a different pattern, rather than accumulating momentum – turn by turn of the flywheel – they tried to skip build-up and jump immediately to breakthrough. Then, with disappointing results, they'd lurch back and forth, failing to maintain a consistent direction.

You will face an entirelyy new set of challenges: how to accelerate momentum in response to ever-rising expectations, and how to ensure that the flywheel continues to turn long into the future. In short, your challenge will no longer be how to go from good to great, but how to go from great to enduring great. And that is the subject of the last chapter.

From Good To Great to Built to Last

Built to Last: Discover your core values and purpose beyond just making money (core ideology) and combine this with the dynamic of preserve the core/stimulate progress. A deeply held belief that profit is *not* the fundamental goal of a company.

Walt Disney provides a classic case of preserve the core and stimulate progress, holding a core ideology fixed while changing strategies and practices over time, and its adherence to this principle is the fundamental reason why it has endured as a great company.

Four key ideas to build a company to last:

1) Clock building, not time telling:

   Endure and adapt though multiple generations of leaders and multiple product life cycles; the exact opposite of being built around a single leader or a single great idea.

2) Genius of AND:

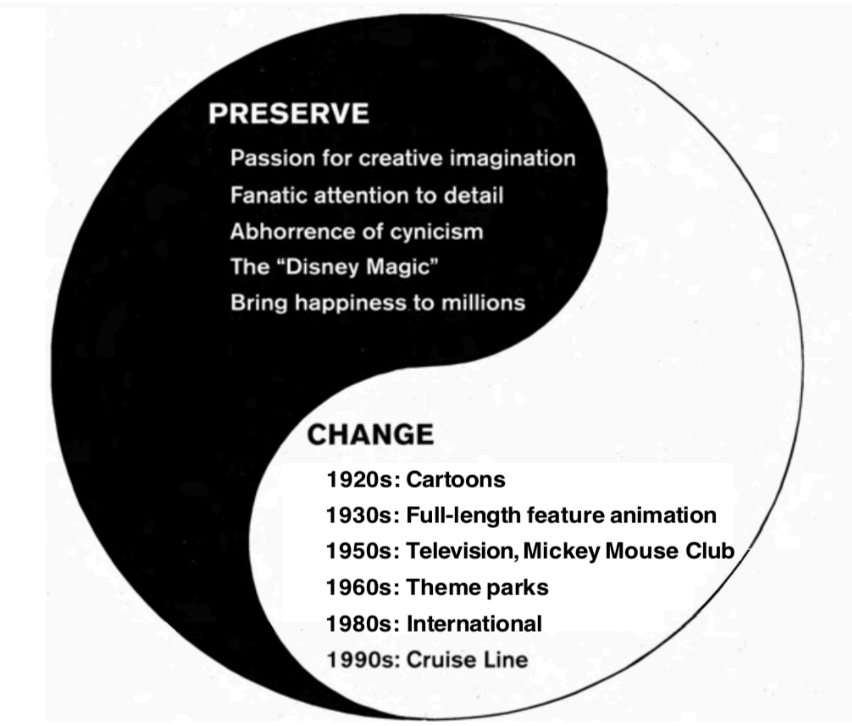
   Instead of choosing A or B, figure out how to have *A AND B,* purpose and profit, continuity and change, freedom and responsibility etc.

3) Core ideology:

   Instil core values and core purpose.

4) Preserve the core/stimulate package:

   Preserve the core ideology as an anchor point while stimulating change, improvement, innovation, and renewal in everything else. Change practices and strategies while holding core values and purpose fixed.



Preserve the *Core/Stimulate* Progress at Walt Disney Company, *1920s–1990s*

If you're doing something you care that much about, and you believe in its purpose deeply enough, then it is impossible to imagine not trying to make it great.

To conclude,

In studying the companies, we learned that "being right" just isn't that hard if you have all the pieces in place. If you have Level 5 leaders who get the right people on the bus, if you confront the brutal facts of reality, if you create a climate where the truth is heard, if you work within the three circles, if you frame all decisions in the context of a crystalline Hedgehog Concept, if you act from understanding, not bravado - if you do all these things, then you are likely to be right on the big decisions. The real question is, once you know the right thing, do you have the discipline to do the right thing and, equally important, to stop doing the wrong things?

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Simplicity Trumps Complexity

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