What does it take for a good or even mediocre company to become truly great? After conducting a 5-year study of companies that moved from average to great, best-selling author Jim Collins and his team unearthed the key principles for achieving enduring greatness.

What’s really interesting is that the principles apply to any organization, be it a large corporation, small business or even start-up. The principles for greatness are the same. They even apply to teams and departments.

So how did they uncover these principles? First, Collins and his team researched over 1,400 established companies and found 11 that made the leap from mediocre to great. How great? After the leap, they averaged returns almost 7 times greater than the market’s - more than twice the performance of General Electric under the legendary Jack Welch.

Then they found 11 companies that failed to make the leap despite the fact that they were in the same industries, with the same opportunities and had the same resources. Collins called this group “comparison companies.”

For example, the drugstore chain Walgreens wallowed in mediocrity along with its comparison company Eckert’s, for decades. And then in the mid-seventies - when both companies enjoyed the same opportunities and had virtually the same sales - Walgreens took off and started generating returns fifteen times greater than the general market! What did Walgreens do that Eckert’s didn’t? What in fact did all the good to great companies do that the comparison companies failed to do? That’s what Good to Great is all about - and greatness starts with the right leader.

Principle #1 - Leaders

One of the most surprising findings of the study was the type of leader needed to transform a good company into a great one. None of the leaders of the good to great companies were high-profile celebrity CEOs with big personalities and egos to match. They were modest, humble and shunned the limelight. But don’t mistake their
demeanor for weakness. They were willful and fearless - with tremendous resolve to produce the best possible long-term results, no matter how difficult the challenge.

But aren’t larger than life CEOs supposed to be the ones who make big things happen? Not really, they are just the ones that get everybody’s attention. For leaders to make something great, their primary ambition has to be centered on the greatness of the company, not themselves. At key decision points when Option A would benefit their ego and Option B would favor the company - good-to-great leaders always pick Option B. Celebrity CEOs, at those same decision points, are more likely to favor self and ego over company and work.

Also, good-to-great leaders attribute success to factors other than themselves and when things go poorly they take full responsibility. The CEOs at the comparison companies often did just the opposite - they took credit for the successes and assigned blame for disappointing results.

**Principle #2 – Get the Right People**

Many believe that to transform a company from good to great one first needs a new compelling vision - something that gets everyone excited and has the potential to take the company to new heights. But this isn’t what the study found.

In fact, before they decided on a new direction, leaders of good-to-great companies started with getting the right people on board and then put them in positions where they could shine. And this is critical; they also got rid of the wrong people. If you have the wrong people, nothing else matters. You may have a great plan but you can’t achieve greatness because a great vision with mediocre people still produces mediocre results.

And they had the discipline to stick with that plan, no matter how dire the circumstances. Take David Maxwell. When he became CEO of Fannie Mae in 1981, the company was losing $1 million every business day. The board impatiently questioned Maxwell on how he was going to rescue the company. Maxwell responded as all good-to-great leaders do - he told them that he needed to get the right people on board first - then and only then would he look at what to do.

Maxwell told his management team that only the best would stay on, things were going to get really tough, and if they weren’t up to it then they should leave now. In all, 14 of 26 executives left and were replaced by some of the best executives in the financial industry.

With the right people on board, in the right positions, Maxwell and his team then turned their full attention to finding a way to turn the company around. The team created and implemented a powerful new strategy and took Fannie Mae from losing $1 million a day to earning over $4 million a day. They generated cumulative stock returns nearly eight times better than the general market from 1984 to 1999 beating stellar performers like GE, Coke and Intel.
The leaders of good-to-great companies all dealt with the question of increasing company performance in the same way - they used the brainpower of their entire team.

When Alan Wurtzel became the CEO of Wards, the company that would become Circuit City, it was teetering on the edge of bankruptcy. When asked what he was going to do to turn the company around he answered, “I don't know.” Rather than claiming he had the right answers, Wurtzel got the right people on board and began asking questions, sparking debates in the company boardroom and on the executive team. Wurtzel kept asking questions until he had a clear understanding of the company’s situation and armed with that knowledge the company began its journey to becoming one of the eleven good-to-great companies in the Fortune 500.

This was a trait of all the good to great company leaders - none of them came in with the answers like the celebrity CEOs who began with their own vision - they got the right people on board and began asking questions.

**Principle #3 – Confront the Brutal Facts**

During the height of the Viet Nam war Admiral Jim Stockdale was shot down and spent eight years in the Hanoi Hilton POW camp. During his imprisonment, Stockdale, the highest ranking American captured during the war, survived incredible adversity. How did he survive when so many around him didn’t? He faced the brutal fact that there was no telling when, or even if, he would get out of the POW camp. However, at the same time he maintained an unshakeable faith that he would one day prevail - and prevail he did. Collins dubs this duality the “Stockdale Paradox.”

When asked who didn’t survive, Stockdale said: “that’s easy, the optimists, they would say we’ll be out by Xmas, and as Xmas passed they would then say, we’ll be out by Easter, and as Easter passed they would again say Xmas, and then as another Xmas passed they would break down and die of a broken heart.”

Every good-to-great company faced adversity along the way to greatness - Gillette and the takeover battles, Wells Fargo and deregulation, Fannie Mae bleeding a million dollars a day and so on. In every case, the management team responded with a powerful psychological duality. They accepted the brutal facts of reality while maintaining an unwavering faith in the endgame, and a commitment to prevail as a great company despite the brutal facts. There is a sense of exhilaration that comes in facing hard truths and saying, “We will never give up. We will never capitulate. It might take a long time, but we will find a way to prevail.”

Companies that don’t face the brutal facts are doomed to failure. For example, A&P didn’t face the fact that the old-model grocery store was becoming extinct, even when their own research proved the point. That same research also told them what people wanted - super-stores with tremendous selection. A&P refused to face this brutal fact and buried its head in the sand.
On the other hand A&P’s rival, Kroeger, a good-to-great company, faced the brutal facts and took action. They eliminated, changed, or replaced every single store until they had nothing but superstores. By 1999, Kroeger was the number one grocery chain in America.

By asking questions, the leaders of good-to-great companies created a forum where realities could be expressed and addressed honestly. And without knowing the reality of the situation it is impossible to make the right decisions. But most importantly they had the discipline to act on the facts, no matter how difficult.

And you can’t just face the brutal facts once - you need the discipline to continually confront them. So how can you create a climate where the truth is heard? Collins offers four basic practices: Lead with questions, not answers. Engage in dialogue and debate, not coercion. Conduct autopsies without blame, and build “red flag” mechanisms, such as reports containing key performance metrics that aren’t meeting targets to highlight specific problem areas.

Principle #4 - Fox or Hedgehog?

In his famous essay “The Hedgehog and the Fox” Isaiah Berlin divided the world into two camps: hedgehogs and foxes.

The fox is a cunning creature that develops numerous schemes and plans to catch the hedgehog. The fox is sleek and attractive while the hedgehog looks like a mix of a porcupine and a small armadillo. As the hedgehog goes about its daily business the fox waits in the shadows ready to execute its latest plan of attack. Then the hedgehog comes into striking distance - the fox charges - the hedgehog thinks “here we go again” and wraps itself into a ball: the hedgehog becomes a sphere of sharp spikes. The fox sees the defense, withdraws and immediately begins to calculate a new method of attack. Each day a version of this same drama plays out and despite the cunning of the fox, the hedgehog always wins.

Foxes have many random and often unrelated strategies while hedgehogs have a single concept that defines what is essential for success. The people who built the good to great companies were all, to some degree, hedgehogs. They saw through the complexity of their situation to the issues critical to success and created a single concept that guided all decisions. In other words, they all created a hedgehog concept for their companies. The comparison companies were all foxes - never gaining the clarifying advantage of a hedgehog concept.

What does it take to come up with a Hedgehog Concept for your company?

You need to answer these three questions:

1. What can we potentially do better that anyone else?

2. What financial ratio drives our success? (The answer comes in the form of profit per “X,” for example; “X” could be profit per employee or profit per
3. What are our key people passionate about?

Answer those three questions honestly, facing the brutal facts, and you’ll begin to see your Hedgehog Concept emerge.

Walgreens had a Hedgehog Concept - to be the best, most convenient drugstore in the world. Their core people were passionate about it and they determined that their economic engine was driven by profit per customer visit. Most importantly, they had the discipline to act on their concept. Walgreens closed stores in inconvenient locations and located new stores so closely together that no one had to walk very far to get to one. And they added high margin services like one-hour film processing to increase the profit per customer visit.

Walgreens became the best in the world at producing convenient drug stores while steadily increasing profit per customer visit. That simple idea, implemented with courage and imagination, beat the market returns of GE 5 to 1, Intel 2 to 1 and the general market 15 to one.

If this idea is so simple and obvious why didn’t the comparison company, Eckert’s, do the same thing?

Eckert’s didn’t have a hedgehog strategy. They bought groups of drug stores in random locations with no rhyme or reason, just growing for growth’s sake. And what was the result? In the early 80’s Walgreens and Eckert’s had virtually the same revenues, but over the next ten years Walgreens had twice the revenues of Eckert’s and $1 billion more in profits. Twenty years later Walgreens was going strong and Eckert’s was bought out.

All good-to-great leaders distinguish themselves with their unyielding discipline to stop doing anything that doesn’t fit within their Hedgehog Concept. That’s why Walgreens closed its stores with inconvenient locations even if it cost a million dollars to get out of a lease.

Defining your Hedgehog Concept takes time - the insights aren’t uncovered overnight. On average, it took four years for the good-to-great companies to crystallize their Hedgehog Concepts. It was a process of asking piercing questions, engaging in vigorous debate, taking resolute action, and conducting autopsies without blame. And this process was repeated over and over by the right people, infused with the brutal facts.

**Principle #5 - The Flywheel and the Doom Loop**

Imagine a giant metal disk horizontally mounted on an axle - a giant flywheel weighing several tons sitting at a standstill. Your job is to start this flywheel moving and to get it going faster and faster, building up more and more momentum until
you hit breakthrough and the flywheel has so much momentum that it starts to carry you. How do you get the flywheel turning at breakthrough speed? You employ all the principles we have talked about: get the right people on board, face the brutal facts, continually ask questions, create and implement a Hedgehog Concept - you get the idea. These will get your flywheel moving faster and faster and if you have the discipline to keep using these principles, your flywheel will hit breakthrough speed and carry you forward to greater and greater success with its tremendous momentum.

Unlike good-to-great companies, many of the comparison companies fell into what Collins calls the "Doom Loop." They genuinely wanted to create better companies but didn’t have an understanding of what it took to become better or the discipline to stick with a plan. They’d start down one path, fail, change directions - get a new leader or program, fail, start a new program... they fell into a steady, downward spiral - a Doom Loop.

For example, Warner-Lambert Co., the company that was compared directly with Gillette, underwent three major restructurings between 1979 and 1998 - one per CEO. Each new CEO arrived with his own program; each CEO halted the momentum of the flywheel and pushed it in a new direction. The company spiraled downward, until it was swallowed by Pfizer in 2000.

So apply the concepts, turn that flywheel, accumulate momentum and you will move from build-up to breakthrough and achieve great results, it will not happen next week or next month but it will happen.

Remember that these principles don’t apply only to large companies; entrepreneurs like Sam Walton used them to build Wal-Mart from a start-up into a great company, just as Hewlett and Packard used them to build HP. The principles even work for teams and departments.

Enduring Greatness

So we’ve seen how companies become great, but how do they stay on top - how do they create enduring greatness? Collins’ research shows that core values are critical. “In 1950, George Merck II, the founder’s son, stated the company’s philosophy “We try to remember that medicine is for the patient, it is not for the profits. The profits follow. And if we have remembered that, they have never failed to appear - the better we have remembered it, the larger they have been.”

And Merck has been a hugely profitable company. From 1946 to 2000 they beat average market returns by an astounding ten times.

Core values are absolutely essential for enduring greatness but strangely, it doesn’t matter what those values are. IBM is passionate about customers while Sony is not, Sony is passionate about innovation, but Ford it is not, and each of these companies enjoys enduring success. The lesson is clear, it doesn’t matter what core values you have, you just need to have some, and you must build them into every part of your
organization.

One Last Note

Collins believes that it is no harder to build something great than it is to build something good. When we understand what is important and what is not, we find that so much of what we do is a waste of time and doesn’t take us any closer to creating something great. If you spend the majority of your time applying these principles and stop doing most everything else, your life will be simpler and the results you achieve will be dramatically better. So in the end, creating a great company is a choice, and with the clarity these principles offer, the choice should be clear.