

Audio-Tech Business Book Summaries



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- Learn... what separates the best firms from mediocre companies. . . and how you can transform your business from good to great.
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- Understand... why business leaders who put their companies' ambitions ahead of their personal ambitions outperform high-profile CEOs.
- Discover... the importance of putting who before what — that is, putting the right people in the right jobs before pursuing a new vision or strategy.
- Escape... the “doom loop” of chasing after a single big program, and instead make spectacular progress through a slow, steady buildup of momentum.



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

by Jim Collins

A summary of the original text.

Most of today's truly great companies, like Merck and Coca-Cola, have always been great. The vast majority of companies remain just that: good, but not great.

But some companies have made the transition to greatness. Collins defines a "great company" as one that has generated cumulative stock returns that beat the general stock market by at least 300 percent over 15 years. Collins and his research team studied 11 good-to-great firms:

1. Abbott Laboratories
2. Circuit City Stores
3. Federal Home Loan Mortgage
4. Gillette
5. Kimberly-Clark
6. Kroger
7. Nucor

8. Philip Morris
9. Pitney Bowes
10. Walgreens
11. Wells Fargo.

Next, Collins and his team compared the good-to-great firms to a control group of companies that failed to make the leap.

The companies in the control group were:

1. Upjohn
2. Silo
3. Great Western
4. Warner-Lambert
5. Scott Paper
6. A&P
7. Bethlehem Steel
8. R.J. Reynolds
9. Addressograph

10. Eckerd

11. Bank of America.

Finally, the team analyzed both sets of companies in order to discover the seven essential factors that separate the good-to-great firms from the merely good ones. These seven factors are:

1. "Level 5" Leaders. These CEOs put their companies ahead of their own egos.
2. A Focus on Who Before What. Leaders concentrated on getting the right people in place before they pursued a new vision or strategy.
3. A Willingness to Confront the Brutal Truth. Every good-to-great company admitted its difficulties, yet believed it would win in the end.
4. The Hedgehog Concept. If you cannot be the best in the world at your core competence, it cannot form the basis of a great company.
5. A Culture of Discipline. When you have disciplined people, you don't need a hierarchy, a bureaucracy, or excessive controls.
6. Technology Accelerators. Good-to-great companies don't use technology to ignite a transformation, but they find new uses for widely-available technology.
7. The Flywheel and the

Doom Loop. Momentum for greatness is built slowly, rather than in a single moment.

What is most surprising is what the team did not find. None of the companies has a flashy or colorful CEO. None of the companies used technology to begin the process of becoming great, and none used acquisitions or mergers, either. Corporate strategy had little to do with greatness, and executive compensation had nothing to do with it at all. Scant attention was paid in those great companies to managing change; in fact, most companies were unaware of their crucial transition to greatness. The good-to-great companies were not in great industries.

Many of the companies Collins studied were downright boring. Walgreens had bumped along as an average company, more or less tracking the general market, for more than 40 years. Then in 1975, it began its climb to greatness. Between 1975 and 2000, it beat technology superstar Intel as an investment by a factor of two. It beat GE by five times and Coca-Cola by eight. It beat the general market, including the NASDAQ run-up at the end of 1999, by more than seven times.

Note that Collins refers to "the general market" as the totality of all stocks traded on the New York Stock Exchange, American Stock Exchange, and NASDAQ.

Abbott beat the general

market by nearly four times; Circuit City trounced it by 18.5 times. Gillette outperformed it by more than seven times. The complete results can be found in a table on page 3.

The most remarkable aspect of the transformation of the other good-to-great companies was that the pundits didn't even notice. Those were not companies you heard talked about on CNBC, nor did you see splashy profiles of their CEOs on the front page of the Wall Street Journal.

Instead, those unremarkable companies in some rather backward industries, led by quiet, self-effacing leaders, simply plugged along with dogged determination, pursuing a simple concept in a culture of discipline, until they had created an unstoppable momentum that carried them into astounding earnings figures year after year.

Let's take a look at some of those Level 5 leaders and the qualities they share.



LEVEL 5 LEADERSHIP

Kimberly-Clark is about as boring a business as you could find. The paper company's stock had dropped 36 percent behind the general market during the 1960s and 1970s. It looked as if the company was on a long, slow decline toward extinction or acquisition.

Then in 1971, Darwin E.

Smith, a mild-mannered in-house lawyer, was appointed CEO by the board of directors. Shortly after he took the reins, Smith made the most dramatic decision in the company's history: He sold its paper mills, which represented Kimberly-Clark's core business of coated paper.

Smith concluded that the economics of selling coated paper were poor, and that the competition was weak. The company would continue to be mediocre if it remained in that business. He reasoned that if Kimberly-Clark entered the consumer paper-products industry, top competitors like Procter & Gamble and Scott Paper would force his company to either achieve greatness or perish.

Wall Street downgraded the stock and analysts jeered, but Smith never wavered. Twenty-five years later, Kimberly-Clark owned Scott Paper and it beat Procter & Gamble in six out of eight product categories. Under Smith's leadership, Kimberly-Clark generated cumulative stock returns four times those of the general market, easily surpassing such venerable companies as GE, 3M, and Hewlett-Packard.

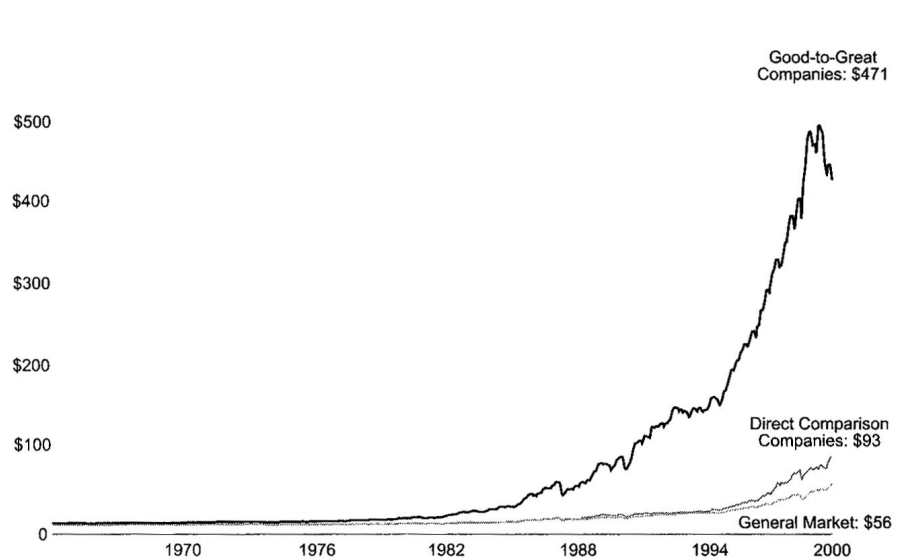
In all 11 of the good-to-great companies Collins studied, there was the same sort of leader at the top: a self-effacing individual with a fierce resolve and a paradoxical blend of personal humility and professional will. In the comparison companies, by contrast, he

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.

Good-to-Great Cases



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.

found flamboyant, charismatic, self-promoters more intent on building their own image than their companies — people like Chrysler's Lee Iacocca, Stanley Gault at Rubbermaid, and Al "Chainsaw" Dunlap at Scott Paper.

In some cases, companies with charismatic leaders make an initial leap in performance, but it is never sustained. Lee Iacocca's Chrysler rose to 2.9 times the market in the first half of his tenure, but dropped 31 percent behind the market in the second half. Iacocca, meanwhile, made himself a name and a bundle of cash.

The CEOs of the winning companies, on the other hand, showed no interest in self-promotion. Indeed, none of them were willing to take credit for the success of their companies. George Cain took over Abbott Labs at a time when the company was just drifting along, selling erythromycin. He looked around and saw two obstacles to greatness: nepotism and laziness.

Cain was not only an 18-year veteran of the company, he was the son of a previous Abbott president, but he took no prisoners when he started replacing executives at every level, building his new team from the ground up.

Starting in 1974, Cain beat the market by four and a half times during the period ending in the year 2000, putting rivals such as Merck and Pfizer to shame.

Every one of the companies chosen by Collins had the same type of leadership, while not one of the comparison companies did. Level 5 leaders displayed modesty, even shyness, coupled with a fierce drive and an incurable, almost obsessive, need to obtain results. Their efforts were all directed toward the success of the company, not themselves, and they took blame but not credit, accepting responsibility while giving the accolades to others on their team.



FIRST WHO, THEN WHAT

Just as the quality of the leadership of the company seems to make all the difference in the world, so do all the other players.

When Collins began his research project, he expected to find that the first step in taking a company from good to great would be to set a new direction, a new vision and strategy for the company. Only then, he assumed, would the leader get people committed and aligned behind that new direction.

The research revealed that good-to-great companies took the opposite approach. The great executives weren't at all worried about what direction to take the company. They concerned themselves with getting the best people in the world into the right spots in the company and, equally important, getting rid of any people who weren't of

the highest caliber.

Selecting the right people is crucial, because it almost instantly solves a host of problems, such as change, motivation, alignment, and even strategy. Conversely, if you have the wrong people, it hardly matters how brilliant your strategy is: They won't be able to execute it.

At Wells Fargo, for example, CEO Dick Cooley decided to build one of the most talented management teams in the banking industry. According to investor Warren Buffett, they assembled the best team.

Beginning in the 1970s, Cooley and chairman Ernie Arbuckle hired the best people they could find from everywhere in the world, and often they didn't even have jobs for them beforehand. Cooley admitted at the time that they knew change was coming, but did not know what kind of change or what their response ought to be. He said, "If I'm not smart enough to see the changes that are coming, they will. And they'll be flexible enough to deal with them."

The main change that was coming was deregulation, and few of the players in the banking industry were prepared. Yet, Wells Fargo handled the new challenges more deftly than its competitors. It actually beat the market by three times while the industry, as a whole, fell 59 percent behind the general market. Nearly every member of the Wells Fargo executive team

went on to become CEO of another company.

By contrast, comparison companies that failed at greatness paid scant attention to team building. For example, Bank of America used a technique called the "weak generals, strong lieutenants" model. The theory is that the strong lieutenants will stick around if the general is weak, presumably so that they can move up.

The weakness extended to Bank of America's stock market performance, which lagged behind the general market, while Wells Fargo was achieving greatness. After losing more than \$1 billion in the mid-1980s, Bank of America recruited a team of strong generals to turn the bank around. And where did it find those strong generals? Right across the street at Wells Fargo.

The idea of getting good people may seem self evident, but that's not the point: The point is that the great companies got the best people first, before even planning what to do with them. Then the great companies let those great people set the direction.

By contrast, the comparison companies often would have a single genius CEO with a great vision, who would hire thousands to execute his vision. The problem with that technique is that when the genius leaves, the helpers are helpless.

Eckerd Drugs provides a

good example. Jack Eckerd was a master of acquisitions. That was his big strategy. Starting from two little stores in Delaware, he spread to 1,000 units all over the Southeast. By the late '70s, his company's revenues matched those of Walgreens, and it looked as if it might become the great company in its industry. Then Eckerd left to run for political office. Without his guiding genius, his company began a long decline and was eventually acquired by J.C. Penny.

Eckerd's fall traces a typical pattern that can be seen in the comparison companies: Charismatic leaders fail to pick a successor who can sustain their momentum. In fact, they often set their successor up for failure because they want to be able to say that no one could match their own performance.

The company, in short, is simply operating in the service of their ego. In the great companies, the ego is operating in the service of the company. The great CEOs have high ambitions, too, but they are not personal ambitions; they are ambitions for the company.

While they have high ambitions, they do not aspire to high salaries. Collins found no connection between compensation and greatness. In fact, the executives of great companies tended to earn less on the whole than those at the comparison companies.

Collins analyzed proxy statements using 112 variations,

including stock options, cash, short-term incentives, and so on. Time and again the results proved that it's not how much you pay, it's whom you pay. Compensation does not motivate people to succeed. It is only a way of keeping successful people inside the company.

At Nucor Steel, an executive describes its winning formula for compensation as follows: "We hire five, work them like ten, and pay them like eight." Nucor rejects the old adage that people are your most important asset. In a good-to-great transformation, the right people are your most important asset.

Nucor locates its plants in small rural communities because of its core belief that you can teach farmers to make steel, but you can't teach a farmer's work ethic to people who don't have it in the first place. Nucor team members often arrive 30 minutes before their shifts to arrange their tools so they will be ready the moment their workday starts. Nucor ejects people who do not share this work ethic, generating high turnover in the first year of a plant, followed by the lowest turnover in the industry once the right people are on board.

The take-away lessons from this part of Collins' research can be boiled down to three practical disciplines:

1. When in doubt, don't hire — keep looking. Sometimes it's very

hard not to hire someone when you can't find exactly the right person, but that's the discipline: Don't compromise. If you force growth without the right people in place, the company may show profits for a while, but it will eventually collapse.

2. When you know you need to make a change in personnel, act right away. This applies most importantly to letting the wrong people go. It's not fair to the person or the company to keep them hanging around, hoping for a change. However, don't overlook the possibility that the right person may be in the wrong slot. When Colman Mockler became CEO of Gillette, he spent two years moving managers around and ended up changing the jobs of 38 out of his top 50 people.
3. Put your best people on your biggest opportunities, not on your biggest problems. At Philip Morris, Joe Cullman had identified the international market, which the company had largely ignored, as the biggest new opportunity. He took his top executive, George Weissman, away from the domestic business and gave him the international market. At first, it looked like a demotion. Weissman had run 99 percent of the business, and suddenly he found himself running only one percent. But two

decades later, Forbes called the move a stroke of genius. Weissman had made Marlboro the best-selling cigarette in the world. Of course, it wasn't difficult to predict that a man like Weissman would put all his energy into making his division the best. He was a man incapable of doing anything less.

That's why choosing the right people is essential to going beyond good performance: because they are incapable of anything less than greatness.



CONFRONT THE BRUTAL FACTS

When a company has Level 5 leadership and the right employees in place, everyone puts the company's performance above his or her own ego. This capability enables the people in a good-to-great firm to confront brutal facts, yet never lose faith.

Consider the case of Kroger. In the 1950s, Kroger and A&P faced off in a David and Goliath battle that still makes people's heads spin. But the difference in their performance can be summed up in the simplest of terms: A&P ignored the truth, while Kroger embraced it.

A&P was second only to General Motors in earnings in the early 1950s. Kroger was less than half that size. Yet over the next half-century, Kroger generated

returns that were 10 times the market, and 80 times better than A&P. What happened was that America changed and A&P did not.

A&P had built a perfect model for the first half of the 20th century, when two world wars and a depression imposed frugality upon Americans: The company offered cheap, plentiful groceries in bland stores.

But in the affluent second half of the century, Americans wanted cleaner stores, more parking spaces, and more choices of products. They also wanted health foods, medicines, and a banking center. In short, consumers no longer wanted to shop in grocery stores; they wanted to stroll through superstores that offered everything under one roof.

While A&P stuck with its tried-and-true business model, living by the slogan, "You can't argue with 100 years of success," its performance slid. Meanwhile, Kroger confronted the brutal reality that the old grocery-store concept was extinct. It eliminated, changed, or replaced every store and exited every region in which it could not be first or second in the market. By 1999, Kroger was the No. 1 grocery chain in America.

In each comparison between the good-to-great firms and the control companies, the conclusion is obvious: Greatness results from a series of good decisions, diligently executed and accumulated one after the

other. To do that, the great executives first infused everything they did with the facts of the situation. They didn't hide their heads in the sand. They did not engage in denial. No matter how bleak it looked, they faced reality.

Pitney Bowes had to face the fact that all its postage metering machines were about to become obsolete and its core business would disappear. Yet, the executives did face this fact and did reinvent the business. Its competitor, Addressograph, buried its head in a series of acquisitions and quick fixes under a charismatic CEO, Roy Ash, in the early 1970s.

Until 1973, the two companies were roughly equal in revenues, profits, number of employees, and stock charts. By 2000, Pitney Bowes had 30,000 employees and revenues over \$4 billion, compared to Addressograph's 670 employees and \$100 million in revenues. Pitney Bowes outperformed its competitor by 3,581 to one. Ash was ultimately removed from office and his company filed for bankruptcy.

This example proves once again that a charismatic leader is often a liability. At Pitney Bowes, it was acceptable for people to speak up and be the bearer of bad news. They could tell senior executives where they were going wrong. At Addressograph, Ash simply instilled fear in his managers, so no one was willing to confront the truth unless it was favorable. The same

was true at many other comparison companies, where people were afraid to speak their minds for fear of being shot down by a strong-willed leader.

A key to being a leader of a great company is to create a culture where people can be heard. Collins suggests three simple steps to accomplish that goal:

1. Lead with questions, not answers. Admit that you don't know the answers, and the great people you've hired will bring them to you.
2. Engage in dialogue and debate, not coercion. Collins suggests being a Socratic moderator, like Ken Iverson of Nucor. In his meetings, people were not afraid. They'd yell and scream and almost come to blows. But they'd emerge with a decision. Such dialogues are always based in fact and mounted in search of the best answers; they are not turf wars.
3. Conduct autopsies without blame. When Philip Morris bought, and then sold, the 7-Up Company at a huge loss, it could have been the opportunity for heads to roll, but it was viewed instead as a very prestigious and expensive school for learning lessons in business. Executives still talk about it, but no one is blamed; everyone is learning from it to this day.

But simply facing facts is not enough. The idea is to see the brutal reality as a great opportunity for change. Collins calls it a sense of exhilaration that comes from facing the facts and saying, "We will never give up."

For example, David Maxwell was CEO of Fannie Mae when it was losing \$1 million every single business day and had \$56 million in loans under water. He saw that the business had gone so bad that his only chance to save it would be to make it the leader in its industry. He rebuilt the business around risk management, invented sophisticated new mortgage finance instruments, and wound up returning almost eight times the general market over 15 years.



THE HEDGEHOG CONCEPT

One of the traits that distinguishes the leaders of good-to-great firms is the simplicity of their concepts. Put another way, they are focused on a single, almost obsessive, goal. This is what Collins calls "the Hedgehog Concept." Hedgehogs always focus on a single idea: If attacked, they will roll up into a ball with their spikes protecting them. Because they have only one strategy, they are free to perfect it.

Similarly, the people who make the biggest impact focus on a single big idea: Charles Darwin and his theory of natural selection,

Sigmund Freud and his theory of the unconscious, Albert Einstein and his theory of relativity.

In business as well, the leap from good to great depends on taking a hedgehog approach. For example, Cork Walgreen decided that his mission was to create the best, most convenient drug-stores in the world with high profit per customer. He didn't have to invent the computer chip, as Intel did. But he beat Intel on returns. He didn't have a secret soft drink formula, as Coca-Cola did. But he beat Coke, too.

Walgreens invented the drive-through pharmacy, put in one-hour photo processing, and replaced any stores that didn't meet its rigorous specifications. In a relentless quest for convenience, it clustered nine stores within a square mile in San Francisco.

In contrast, the main competition, Eckerd, went after growth for the sake of growth. Walgreens grew to twice Eckerd's size with net profits \$1 billion greater.

The simplicity of Walgreens' strategy comes down to answering three questions:

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

In the case of each of the 11 great companies, executives answered those

questions before going ahead. Anything that did not stand up to that test was abandoned, and all resources were poured into the answers in which those three concepts found common ground.

Knowing what you can and cannot be best at is the root of all business strategy. For example, Abbott Labs and Upjohn were almost identical companies in 1964 in terms of product, profit, and revenues. But then Abbott developed a simple core concept, and Upjohn did not.

Abbott began by confronting the sad reality that it had already lost the game of being the best pharmaceutical company in the world. By 1964, it could never catch up with Merck's huge research lead. Abbott CEO George Cain, therefore, asked the logical question: What can we be best at? By 1967, an answer had begun to emerge. Abbott could create products that provided cost-effective health care. For example, good diagnostics can reduce costs dramatically, and proper nutrition can reduce recovery time.

As the company began slowly but surely moving toward being No. 1 in that area, Upjohn was unrealistically trying to beat Merck. The company had a hard lesson to learn: Just because something is your core business doesn't mean you can be the best at it. After fighting a losing R&D battle with Merck, Upjohn saw its profits dwindle to half those of Abbott, and was acquired in 1995.

It sounds like a simple matter to find out what makes your company money, but it's a subtle and elusive thing to measure correctly. For example, Walgreens wanted to increase its profit per customer visit. The normal measure in that business is profit per store, but that would have run up against the core concept that Walgreens had developed of convenience, because it would have dictated decreasing, not increasing, the number of stores.

Wells Fargo, as well, had to be creative about how it defined success to keep it in line with its core concept. Standard banking metrics, such as profit per loan, wouldn't work. They decided to measure profit per employee instead and used stripped-down branches and ATMs to push that objective.

The effort you will put into answering the question of what denominator is best for your company will force a much deeper understanding of what you do than almost any other exercise. It will stimulate intense dialogue and debate. And what you measure is what drives your work at every level.



A CULTURE OF DISCIPLINE

Most executives mistake control for discipline. They believe at some level that the discipline they seek to instill can be achieved by controlling what other people do. But that reasoning is backwards. In fact, what

people do comes from inside them, no matter what the outside stimuli.

Most companies build bureaucracies to manage the wrong people they have, not to assist the right people in getting work done. Getting the right people, and getting rid of the wrong people, solves almost all the problems a company has. Creating a culture of discipline is based on the right people, and that starts at the top.

At Amgen, George Rathmann recruited entrepreneurial leaders and gave them creative and bureaucratic freedom. He trusted them to achieve their goals, because the right people are already motivated to be the best.

The company became so consistently profitable that an investor who bought as little as \$7,000 of Amgen stock at its IPO in 1983 would have realized a capital gain of more than \$1 million. This return is 13 times greater than the return from the same investment in the general market.

But freedom is not chaos. Amgen's people had to work within a system. In other words, being free does not mean being out of control. It means being accountable.

A culture of discipline also involves knowing when to put profits ahead of perks. The Level 5 leaders that we've discussed have shown the way for others who are willing to learn.

Consider Carl Reichardt at Wells Fargo when it went head to head with Bank of America during the period of deregulation. He saw that the key to winning was not with some great, new strategy but with sheer determination and the willingness to tear apart the traditional banking system, which rested on perks and a lavish life style.

Reichardt set the tone from the start. He froze executive salaries for two years, shut the executive dining room, closed the executive elevator, sold the corporate jets, and even banned green plants from the executive suites because they were expensive to maintain. He removed the free coffee from the executive suite, eliminated Christmas trees for management, and rejected reports that were submitted in expensive binders.

During meetings with his executives, Reichardt sat in a beat-up old chair in which the stuffing was hanging out; as he sat in the chair picking at the stuffing, his executives' must-do proposals to spend money just melted away.

The comparison companies attempted to impose discipline from above, without living it themselves. The executives at Bank of America, for example, were living in an ivory tower adorned with Oriental rugs, executive elevators, and a panoramic view of San Francisco. Amid all of this opulence, Bank of America lost \$1.8 billion in three years.

Stanley Gault at Rubbermaid is a perfect example of trying to impose discipline on his employees. He worked 80-hour weeks and made sure his managers did, too. The company rose dramatically under that leadership. But like all tyrannical bureaucracies, when he left, the company lost 59 percent of its value relative to the market. Chrysler under Lee Iacocca showed the same pattern.

The scheme that reaps the most rewards is the simplest one. But it takes a balanced, selfless person at the top, which is rare. At Nucor, Ken Iverson's cheap, rented offices were staffed by fewer than 25 people and had only four layers of management, yet grew into a \$3.5 billion Fortune 500 company. There was no corporate dining room; visiting moguls were taken to lunch at Phil's Diner across the street. In the 1982 recession, when workers' pay was cut 25 percent, executive salaries were slashed by 60 percent, and the CEO himself took a 75 percent pay cut.

The idea behind a culture of discipline is so simple that it's a wonder it can elude so many smart executives: If you want a great company, you must be great yourself. Bethlehem Steel, ensconced in its 21-story vanity address, was the exact opposite. It spent millions to design the building in the shape of a cross so that all executives could have a corner office.

Bethlehem's fleet of corporate jets even ferried the

officers' children to their prep schools and colleges. The executive country club had a world-class 18-hole golf course. The purpose of the company was to support an elite class in high style.

By the end of the century, Nucor, which had been less than a third the size of Bethlehem in 1990, surpassed Bethlehem's revenues. Even more astounding, Nucor's average five-year profit per employee exceeded Bethlehem's by nearly 10 times.

An investor who bought Nucor stock in 1966 would have earned a return 200 times greater than the return from an investment in Bethlehem's stock. In short, Bethlehem's culture of privilege lost money, while Nucor's culture of discipline made money.



TECHNOLOGY ACCELERATORS

Just as the good-to-great companies have learned to succeed without extravagant offices, they have proven that a business does not need the latest, hottest technology to win.

Technology never made a company great. In fact, all 11 companies examined by Collins paid little attention to technology in the initial stages of building toward greatness. What they did do was to marshal their technological resources in the service of greatness when the appropriate time came. In other words, they used technology to

accelerate their momentum.

Walgreens, for example, didn't react at all while the Internet race was on. While other companies were falling all over themselves to get onto the Web and stake out territory, Walgreens took time to think about it.

While Drugstore.com was trading at 398 times revenue, Walgreens was trading at 1.4 times revenue. Analysts downgraded Walgreens stock, erasing \$15 billion in market value. Walgreens didn't panic. "We're a crawl, walk, run company," Dan Jorndt told Forbes magazine.

Walgreens moved slowly by experimenting with a Web site. At the same time, the company engaged in intense internal debate about how the Internet would impact its Hedgehog Concept of convenience. Executives asked, "How can we use the Web to enhance what we do better than any other company in the world?"

While everyone was saying Walgreens was too old and stodgy to get on the Web, the company was gradually tying the Internet to its sophisticated inventory and distribution model. The company figured out a way to enable customers to go on-line, place an order, and either pick it up at the drive-through window or have it delivered. To Walgreens, the Internet was simply another channel for providing its customers with convenience.

When Walgreens launched its complete Web site in October, 2000, its stock price nearly doubled, while Drugstore.Com was announcing layoffs and accumulating mammoth losses. Drugstore.com had lost nearly all of its \$3.5 billion market cap and had gone from run to walk to crawl.

So how do good-to-great companies think about technology? The point is, they do think, they don't react impulsively. They adapt carefully. They spark internal debate. They take small steps. They understand that first-mover advantage is a myth. They understand that there are no magic bullets. They understand that technology is a tool like any other tool, and it can be used in the service of their core concept — nothing more, and nothing less.

What Collins found in his five years of research was that technology, per se, had nothing to do with greatness. But all the great companies had pioneered carefully selected applications of technology. Here are four examples:

1. Kroger pioneered the bar code to link front-line purchases to backroom inventory.
2. Fannie Mae pioneered the application of sophisticated algorithms and computer analysis to assess mortgage risks.
3. Nucor pioneered the application of mini-mill steel production.

TECHNOLOGY ACCELERATORS IN THE GOOD-TO GREAT COMPANIES

Company	Technology Accelerators Linked to Hedgehog Concept during Transition Era	Company	Technology Accelerators Linked to Hedgehog Concept during Transition Era
Abbott	Pioneered application of computer technology to increase economic denominator of profit per employee. Not a leader in pharmaceutical R&D — leaving that to Merck, Pfizer, and others that had a different Hedgehog Concept.		to make huge bets (up to 50 percent of corporate net worth) on new technologies that others viewed as risky, such as continuous thin slab casting.
Circuit City	Pioneered application of sophisticated point-of-sale and inventory-tracking technologies-linked to the concept of being the "McDonald's" of big-ticket retailing, able to operate a geographically dispersed system with great consistency.	Phillip Morris	Pioneered application of both packaging and manufacturing technology. Bet on technology to make flip-top boxes—the first packaging innovation in twenty years in the industry. First to use computer-based manufacturing. Huge investment in manufacturing center to experiment with, test, and refine advanced manufacturing and quality techniques.
Fannie Mae	Pioneered application of sophisticated algorithms and computer analysis to more accurately assess mortgage risk, thereby increasing economic denominator of profit per risk level. "Smarter" system of risk analysis increases access to home mortgages for lower-income groups, linking to passion for democratizing home ownership.	Pitney Bowes	Pioneered application of advanced technology to the mailroom. At first, it took the form of mechanical postage meters. Later, Pitney invested heavily in electrical, software, communications, and Internet engineering for the most sophisticated back-office machines. Made huge R&D investment to reinvent basic postage meter technology in the 1980s.
Gillette	Pioneered application of sophisticated manufacturing technology for making billions of high-tolerance products at low cost with fantastic consistency. Protects manufacturing technology secrets with the same fanaticism that Coca-Cola protects its formula.	Walgreens	Pioneered application of satellite communications and computer network technology, linked to its concept of convenient corner drugstores, tailored to the unique needs of specific demographics and locations. A "swallow your tonsils" big investment on a satellite system that links all stores together, like one giant web of a single corner pharmacy. "Like a trip through NASA space center." Led the rest of the industry by at least a decade.
Kimberly-Clark	Pioneered application of manufacturing-process technology, especially in non-woven materials, to support their passionate pursuit of product superiority. Sophisticated R&D labs; "babies crawl about with temperature and humidity sensors trailing from their tails..."	Wells Fargo	Pioneered application of technologies that would increase economic denominator of profit per employee. Early leader in twenty-four-hour banking by phone, early adopter of ATMs, first to allow people to buy and sell mutual funds at an ATM, pioneer in Internet and electronic banking. Pioneered sophisticated mathematics to conduct better risk assessment in lending.
Kroger	Pioneered application of computer and information technology to the continuous modernization of super-stores. First to seriously experiment with scanners, which it linked to the entire cash-flow cycle, thereby providing funds for the massive store-revamping process.		
Nucor	Pioneered application of the most advanced mini-mill steel manufacturing technology. "Shop the world over" for the most advanced technology. Willing		

4. Gillette pioneered the application of laser welding, normally used on expensive products like heart pacemakers,

to the production of razors on a mass scale. In each case, the company didn't invent the technology,

nor did it allow the technology to drive the company. But it showed great creativity in the use of the technology, and then

brilliantly applied it in the service of its own vision.

Fannie Mae called this "the second wind," the acceleration of momentum after the transformation from a good company to a great company. But in all cases, the technology came after the company had put the right people in place and formulated its core concept, its passion. It came late in the transition, only when the company could fully understand the role the technology would play.

Wherever a new technology didn't fit, the good-to-great firms simply ignored it and went about their business. But that attitude changed as soon as they discovered how a technology could fit the core concept, as Walgreens did in using its Web site to give customers even more convenience. In those cases, the companies became fanatical in the pursuit of excellence where that technology was concerned.

Collins' research led him to the conclusion that technology can not only accelerate greatness. Misused, it can accelerate the demise of a company as well. Technology pioneers rarely prevail. And technology by itself is frequently more a hindrance than a help.

Once again, it comes back to the same theme: Those who turn good companies into great ones are motivated by a deep drive to greatness. Driven by will and discipline, they are

never satisfied. And that applies to technological applications as much as anything.



THE FLYWHEEL AND THE DOOM LOOP

The final theme that all of the good-to-great companies share is a slow, steady buildup of momentum.

For a useful analogy, imagine trying to turn a 5,000-pound flywheel. Pushing with great effort, you might move the flywheel an inch at first. After two or three more hours of persistent effort, you get the flywheel to complete one entire turn.

As you keep pushing, the flywheel begins to move faster and faster. Then at some point, you make a breakthrough: the momentum kicks in in your favor until its own weight is working for you. You no longer need to push harder, but the flywheel goes faster and faster, with each turn building on all of the previous momentum.

In the good-to-great companies, the transformation never happened as the result of a single big effort. There was no grand program, no killer innovation, and no radical revolution. Good to great comes about by a cumulative process, in which each step, action, and decision adds up to sustained and spectacular results. It is a

quiet, deliberate process of figuring out what's needed to be done and then taking those steps, one after the other.

Significantly, the great companies had no name for their transitions from good to great. They just plugged along, doggedly pursuing their passion, their core concept.

But the interesting thing is this: It takes nerves of steel to pull that off. None of the companies involved had the luxury of circumstance to grant them the time and comfort to sit back and take those small steps. They were under fire from all sides. There was looming bankruptcy, impending take-overs, million-dollar-a-day losses, and Wall Street breathing down their necks. And yet they had the fortitude to remain calm enough to take those simple, small steps instead of trying one big push to greatness, one big change.

By contrast, the companies in the control group were marked by a different pattern that Collins calls the "Doom Loop." They constantly sought the grand program or killer innovation that would allow them to skip the difficult buildup stage and skip right to the breakthrough.

To return to the flywheel analogy, they would push it in one direction, then stop, change course, and throw it in a new direction. Then they would stop, change course, and push the flywheel in yet another

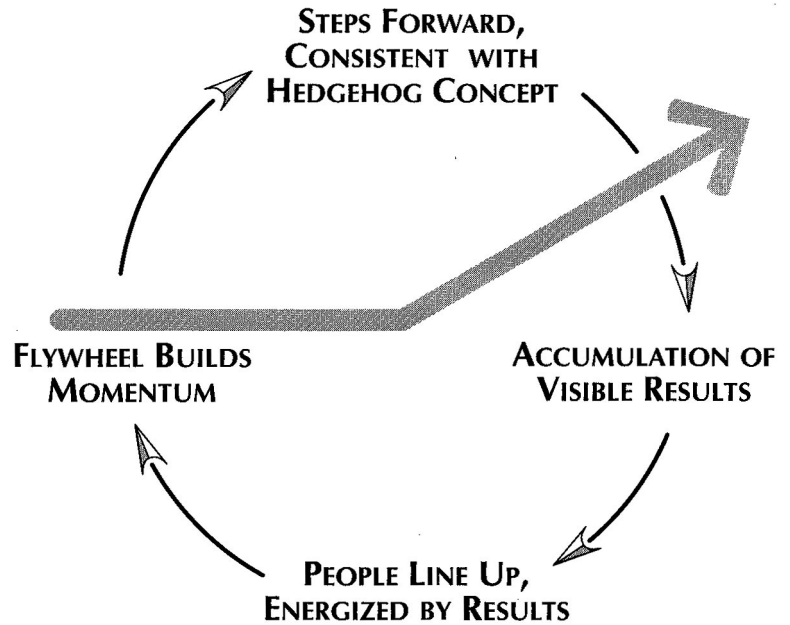
direction. After years of lurching back and forth, these companies failed to build sustained momentum.

For example, Warner-Lambert announced in 1979 that it would be a leading consumer products company. In 1980, it did a 180-degree turn to health care products. In 1981, it reversed course again to consumer goods. In 1987, it again abandoned consumer goods and went back to health care products. In the 1990s, it spun around again, embracing diversification and consumer brands.

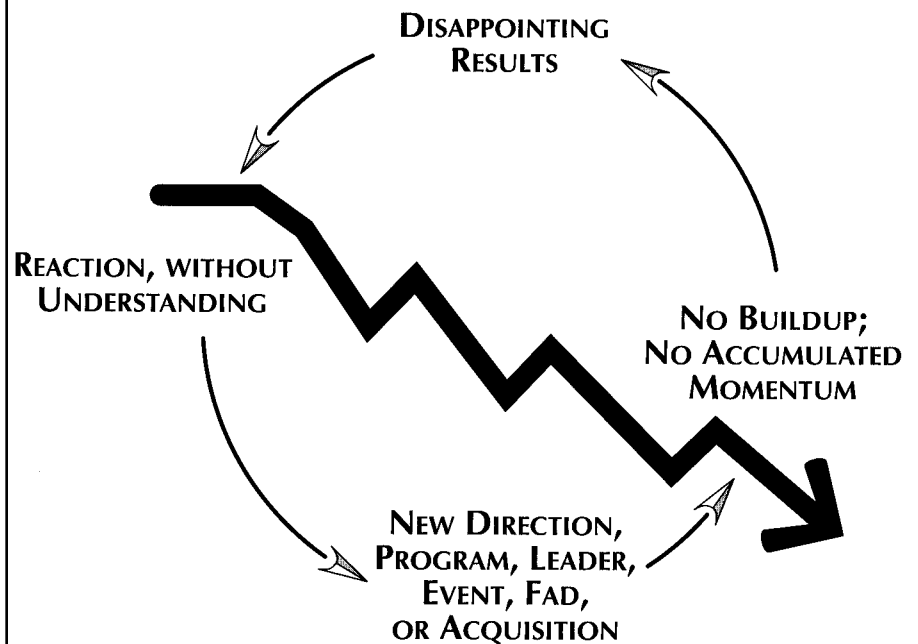
Meanwhile, it was hemorrhaging cash and failing to build momentum. From 1979 through 1998 Warner-Lambert went through three major restructurings, one per CEO, firing 20,000 people in the process. Stock returns flattened relative to the general market, and Warner-Lambert vanished as an independent company, swallowed up by Pfizer.

It is impossible for a company to build up a head of steam with all those abrupt changes in direction. And lost on those leaders is the truth that it doesn't really matter what business you're in. Remember that all 11 good-to-great companies in the study were in rather unpleasant industries to begin with, such as banking and steel. Your company can be great in any business, as long as you can be the best at it, as long as it drives your bottom line, and as long as you're passionate about it.

The Flywheel Effect



The Doom Loop



The same two patterns — the Flywheel Effect and the Doom Loop — can be seen in companies' different approaches to mergers and acquisitions. The great companies used them the same way they used technology: to accelerate an

already-moving concept, to create more momentum. The mediocre firms grasped at them in a desperate effort to jump-start their efforts, and it never worked.



To escape the Doom Loop and make the leap to greatness, you must embrace each of the seven themes that Collins found in the companies he studied.

1. Practice Level 5 leadership by putting your company's ambitions ahead of your career aspirations.
2. Focus on who before what by putting the right people into the right jobs, instead of jumping right into action.
3. Confront the brutal facts to see clearly what steps must be taken to build momentum, rather than embracing fads.
4. Attain consistency with a clear Hedgehog Concept, rather than lurching back and forth from one strategy to another.
5. Establish of culture of discipline in which everyone is accountable.
6. Harness the right technologies to accelerate momentum, instead of trying to keep up with each technology change out of a fear of being left behind.
7. Make slow, measured progress on the flywheel, rather than pushing in different directions and hoping for a big breakthrough.

Once you apply these concepts to your own business, you can start making slow,

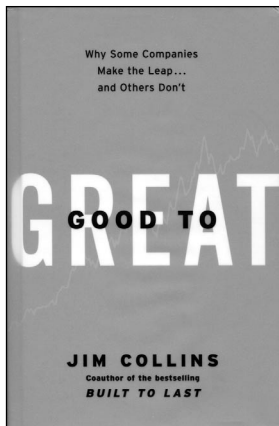
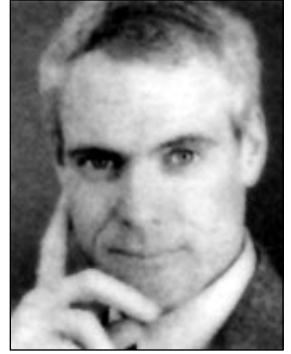
steady progress toward sensational results. Along the way, you will need to spend very little energy to motivate or align people to the new vision. The momentum on the flywheel builds on itself, constantly propelling the entire company beyond good performance to great performance.



NOTES

ABOUT THE AUTHORS

Jim Collins is coauthor of *Built to Last*, a national bestseller for over five years with a million copies in print. A student of enduring great companies, he serves as a teacher to leaders throughout the corporate and social sectors. Formerly a faculty member at the Stanford University Graduate School of Business, where he received the Distinguished Teaching Award, Jim now works from his management research laboratory Boulder, Colorado.



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