Good to Great and *Great by Choice*

The two above book titles research organisations that do multiple times better than their comparisons facing exactly the same conditions. While “Good to Great” focuses on well established organisations, regardless of their particular circumstances, “Great by Choice” looks at initially small or medium-size organisations who outperform comparison companies in times of high uncertainty and chaos. Why are these studies exiting and relevant? Because they unearth the critical success factors for lasting success in an ever changing world, and because increasing numbers of organisations today face exactly the stormy, unpredictable conditions under which “Great by Choice” companies grew steadily. Globalisation provides unprecedented opportunities, but also introduces complex and far-reaching inter-dependencies, between local and international markets and policy decisions. You want to know what behaviour helps you sustain and thrive, and these studies tell you.

Good to Great

In “Good to Great. Why Some Companies Make the Leap... and Others Don’t”, published in 2001, Jim Collins presents research findings on what is done differently in companies that moved from average to outstanding performance, and maintained to do so for at least 15 years. By looking at what was virtually always done in companies that made such a transition, and was virtually never done by companies that did not, or that only raised above the market for a few years, they found the DNA of greatness[1]. The below document shares key points and unexpected finding of the book, often quoting summaries from the book.

In the research they focussed on commercial companies, because objective financial data were available which allows for statistical analysis, and greatness could therefore be approximated in terms of profit. Yet their findings are equally relevant to government and non-profit, although in that case the chief focus will be on social and environmental objectives, rather than profit. In a 2005 sequel “Good to Great in the Social Sectors” Collins explains that the essential point is not that the social sector should become fully approached as businesses, but that there are shared principles that can turn both business and social organisations from good to great. He also notes five changes or additions to his good-to-great research in the private sector, and in this syllabus we will integrate them below.

[1] Over a period of five years, Collins and his team looked at American companies that had each for at least 15 years followed the general market, and then after a breakthrough point steadily started to out-perform the market, climbing on average to well over 8 times the general market in terms of returns on stock by the year 2000. The research studied behaviour and results at “good-to-great” companies, but also in “direct comparison companies” in exactly the same time and industry, so that it is clear that the good-to-great companies had no better chances than other companies. A final group of “unsustained comparison companies” were studied, which operated in the same era and that had a temporarily success. The statistical likelihood that the research findings are not representative of reality was calculated as less than 1 in 17,000,000.

Good-to-Great Leaders

Much to their dismay, Collins and his research team found that the build up and breakthrough from good to great always coincided with a change of leadership. Collins did not like this, because it still did not answer what made for success, so they investigated deeper in *how* these leaders were different (it was found that they had a rather uncommon style), and *what they did* differently compared to the comparison companies and the companies with a short-lived breakthrough.

In terms of personality, they found the good-to-great CEO's (Chief Executive Officer's) were self-effacing, quiet, reserved and even shy, dedicated to results rather than recognition, whereas the CEO's of unsustained comparison companies were celebrities, often interviewed, hired from outside against top salaries. The ambition of good-to-great leaders was for the institution rather than for themselves, helping their successors to maintain success, while in the comparison companies three quarters of the executives set their successors up for failure or chose weak sucessors or both. The good-to-great leaders had personal humility, but great professional will.

A stunning difference is also in the response to success or failure. Great leaders would see themselves as "just lucky" (meeting with favourable opportunities) when they succeeded or they credited a person in the company for success and blamed themselves for wrongs, whereas leaders in the comparison companies would blame others for failures and praise themselves for success. As stated, all good-to-great companies had this type of leadership during the transition, but it is otherwise rare, because it is usually the big personal ambition and "selling" of one's personality, that drives people to the top.

And the good-to-great leaders went about their business rather differently, as you will see below.

First Who... Then What

Unlike the leaders of unsustained change, the leaders that brought their companies to sustained greatness, started with reviewing who was on the senior management team, and in which position. Only once they were satisfied with the team composition and placement (which sometimes implied changing people in positions more than once or firing), did they sit down to decide what to do. As Collins puts it: "People are *not* your most important asset. The right people are." And "The point of this chapter is not just about assembling the right team – that's not new. The main point is to *first* get the right people on the bus, before you figure out where to drive it." Furthermore the comparison companies often followed the "genius with a thousand helpers" model – a genius leader who sets a vision and then enlists a crew of helpers, whereas in good-to-great companies all leaders took responsibility. The former model fails when the genius departs.

The great companies follow the following three practical disciplines:

1. When in doubt, keep looking, rather than hire and try
2. When you know you should make a staffing change, do it (even though the good-to-great companies did restructure and fire less frequently). And there are two tips to help you know when you know that it is time to fire a person:

- If you would not hire him if he were to apply now
- If you would be secretly relieved if he or she resigns

3. Put your best people at the biggest opportunities (such as new markets), rather than at your biggest problems, or biggest departments for that matter

And an absolute key element of the organisational culture: Good-to-great management teams debate issues vigorously in search of true causes and best answers, yet unify behind decisions once they are made. The leader invites all to speak, listening and putting common interpretations in question, while the team members contribute without inhibition, and without fear for retribution or motive to criticise or show off.

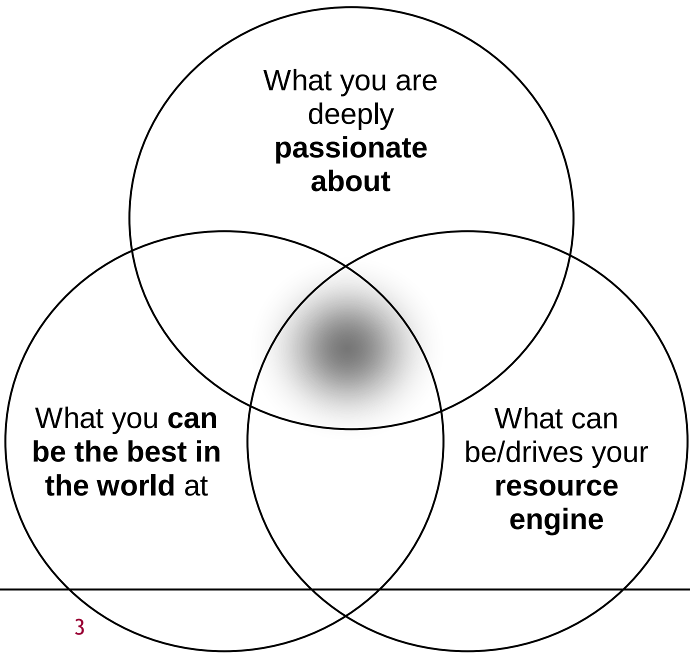
Confront the Brutal Facts (Yet Never Lose Faith)

The leaders of great companies never lost faith that they could prevail in the end, regardless of difficulties. At the same time they worked with and honestly communicated about the facts and figures about their company as they were. Collins knew that the pessimist would not make a great leader, but it was an eye-opener to learn that the optimist will not prevail either, because he hopes to reach his goals earlier than he will reach them, and then does not have the perceverance to face the inevitable disappointments. The climate where the truth is heard follows four principles:

1. Follow with questions, not answers
2. Engage in dialogue and debate, not coercion (charisma can be a disadvantage here, as team members tend to refrain from bringing up brutal facts)
3. Conduct autopsies (analysis of failures), without blame
4. Build mechanisms that turn information into information that cannot be ignored, by agreeing ways in which staff can bring information they consider as pertinent to management attention. This may be called a “red flag” mechanism, as it does not yield new information, but flags existing information with an underscore

The organisation does not take responsibility to motivate its staff, because they should be self-motivated. Instead great companies focus on removing de-motivating obstacles to performance.

Simplicity and Focus: The Hedgehog Concept and the Three Circles



To go from good to great requires realising the essence of what you are good at, rather than just sticking to doing the same thing. A company needs to understand what it is good at, what it’s staff is passionate about, and what is the denominator that drives its resource engine (in simpler words: How is value produced and profit made). In social sectors the third aspect, may read as: What mobilises our resources, in terms of money, but often much more in terms of attracting committed volunteers.

Organisation that have become great, have dared to focus *only* on that which falls fair and square within the intersection of passion, capacity, and long-term viability (profit for companies, resources for social organisations). The companies studied show very distinctly, that also in hard times, the good-to-great companies only invested in what Collins calls their “Hedgehog”, emphasising the determination, focus and discipline that make for greatness. It is about finding one big thing you are good at, and sticking to it.

Note that understanding what you can be the best in the world at, goes beyond knowing what you are doing – it is knowing what makes you so good at that, so you can possibly transport that same core competence to other applications. Also realise that it is not about what you may or wish to be good at (your “core business”), but seeing the reality of what you can be the best at.

Insight in your resource engine (or economic engine as Collins called it in Good to Great, but “resource” is a widening adaptation for social sectors) is seeing clearly what helps you get the resources (financial income, volunteers) to serve your mission (as a first bottom-line profit, in the case of companies).

As for passion: The issue again was not to make people passionate, but to recognise what they were passionate about already. Here Collins’ slogan is “Motivating people is a waste of time”, they should be self-motivated, or they should not be on that seat in that bus.

Altogether finding their Hedgehog Concept took good-to-great companies on average four years, and is based on study, understanding and experimenting rather than mere determination, although good-to-great companies did not spend more time on strategy making as such; they “just” did a better job.

Culture of Discipline

When you have disciplined people, you do not need excessive hierarchy, rules and controls. When you don’t have disciplined people, and try to force them through hierarchy, rules and controls, it will be a continuous effort and your internally motivated staff will leave, because you do not give them the opportunity to perform. In good companies the leader was often a tyrant, such as a saviour CEO, personally disciplining others; in great companies people took care of themselves.

It also requires discipline to say “No, thank you”to big opportunities. The fact that something is a “once-in-a-lifetime opportunity” is irrelevant if it does not fit within the three circles. Disciplined budgeting is not about deciding how much each activity gets, but to decide which arenas fit best within the three circles, and therefore receive full funding. On the personal level, discipline implies following “stop doing” lists as much as “to do” lists.

Technology Accelerators

In becoming great (as opposed to becoming temporarily great), technology is never the primary means. Transition companies pioneer and apply carefully selected technologies. In other words, technology, if within the hedgehog, is an accelerator, not a creator, of momentum. *None* of the good-to-great companies began their transformation with pioneering technology, yet they *all* became pioneers in the application once it fit their circles, and after their moment of breakthrough (visible in stock returns). Great companies react with thoughtfulness and creativity to technological chage, whereas mediocre companies react and lurch, motivated by fear.

The Flywheel

Collin's research team realised that there was never a single decision or defining moment in growing from good to great, but a continuous series of pushes in the right direction. Within the organisation people did not talk about a "change project", that the staff either agreed with or resisted, but simply thought through and piloted new models, and if found successful they would be upscaled. There would be no pep-talk or change management workshops, because seeing is believing. The breakthrough just followed the laws of cause and effect: With consistent, well-directed effort greatness just happens. The short-term pressures of Wall Street were not inconsistent with following this model. Yet great leaders dared to forego short-term gains and disappoint uncommitted investors.

In the social sectors Collins recognises that there are two flying wheels: That of the social organisation, and that of its target group, that both require attention. In development cooperation the chain may be even longer, with an international organisation working with a national partner, who interacts with a target group.

Great by Choice

"Great by Choice. Uncertainty, Chaos, and Luck – Why some thrive despite them all", published in 2011, authored by Jim Collins and Morten Hansen, shares the below insights and research findings.

10Xers

The "great" companies in this study beat their comparisons by a factor 10 over the reasearch period, hence the authors refer to them as 10Xers. In three areas they are notedly different from their comparison peers:

a) **Productive Paranoia**. They worry way more about what might go wrong, and translate this into actions, such as "if-then" back-up plans. Moreover, they are way more conservative with their finances and in their risk, holding reserves for bad times which they know tend to strike unexpectedly and inconveniently. They "lead above the deathline", knowing that the risk of bankrupcy is asymmetrical: Once you are dead you cannot compensate for it in later good years

b) **Fanatic Discipline**. They follow through on what they say with eery consistency, deliberately holding back growth in good times, and uncompromisingly continuing their march in bad times. They set targets and do not take outer circumstances as an excuse for missing them. Through a much higher consistency in hitting targets, they show that indeed we are a product of choice rather than a victem of circumstances. The slogan here is that they "20-mile march": They walk the same distance every day, rather than run one day, and rest another

c) **Emperical Creativity**. The companies that came out as winners in volutile markets were not more creative and innovative. But they were more clever about it. As the slogan says: They "fire bullets, then cannonballs", which means that they undertake various low-cost, low-risk, low-distraction experiments simultaneously (bullets), but then (and here comes the big difference) monitor the result. As a result they can in due time fire "calibrated cannonballs" (like a new Apple product release), rather than making a bold blind bet. They do not (another huge difference) rush decision-making trying to be the first, but wait for emperical validation before shooting cannonballs. Both great companies and their comparisons take great risks, but the great companies did this well considered (while in the worst case comparison companies would cover one ill-considered, disasterous experiment up with the next)

SMaC

A key chapter then explains that great companies not only have a "SMaC" recipe (SMaC standing for **Specific, Methodical and Consistant**), as most comparisons do, but stick to it three times as strongly. Now this is a strange finding: Weren't we taught that success was defined by our flexibility to adapt to changing circumstances? Here the opposite happens: Great companies change their core recipes three times less than their comparisons. In fact several of their comparisons killed or near-killed themselves by making major changes in a panic, not deeply understanding what wotrks why, and thus only changing those elements that no longer are advantageous.

More practically what is a SMaC recipe? It is what connects the Hedgehog (a Vision, Values, Mission, Strategy type of self-definition) with the Flywheel (the experience that once you are on the right track, keeping on pushing in the same direction will start producing momentum and finally great results) - both concepts from "Good to Great". And more practically than that: It is a durable operating practice based on an insight of why it works. It is more durable than a tactic, which should change moment by moment. It is an A4 list of about 10 items of how your company operates, cutting out your niche.

Some examples (I chose short examples, but they can be three to four lines long):

- Fly only 737s
- Concentrate on non-standard auto-ensurance
- Never use loss reserves to manage earnings
- Employ independent agents as our sales force
- Be neither first nor last with innovations

- Do not cut R&D during recessions
- Do not wait until software is perfect before entering the market
- Do not grant stock options to the CEO but only to employees

Are SMaC recipes amended at all by great companies? Yes, but with the rigor as amendments to the constitution. The frequency? In great companies most SMaC elements remain unchanged for twenty to thirty years. Two healthy approaches exist for amendments:

- After emperical creativity (first bullets, then cannonballs) shows other avenues
- After productive paranoia alarms you of external changes that might impact and call for an internal adjustment

How may you make a SMaC recipe?

1. Make a list of successes achieved
2. Make a list of disappointments you experienced
3. What *specific* practices correlate with success and *not* with disappointments?
4. What *specific* practices correlate with disappoitment but *not* success?
5. Which of these practices can survive under a wide range of circumstances?
6. *Why* do these specific practices work?
7. What 8-10 inter-related SMaC elements best drive your results?

Return on Luck (ROL)

Next an intriguing analysis establishes that companies that became great under trying circumstances did not have more luck, either good or bad, than their comparisons. Nor did the great companies get lucky early in their life, leading to an external comparative advantage, nor did they jump to greatness due to a single luck event. In other words: It wasn't luck that brought them to greatness. Or was it? The events *coming* to either set of companies turned out similar, but how the companies *responded* to luck was differentiating.

Return on luck	Bad luck	Good luck
Great	Defining moments in 10X journey	Essential skills for 10X results
Poor	Can lead to death	Path to mediocrity

Analysis of credibility

And how did they respond? Well, with the same leadership practices mentioned above: Fanatic discipline (20-mile marching), emperical creativity (first bullets, then cannonballs), productive paranoia (leading above the death line), level 5 ambition, and SmaC. 10Xers shone during bad luck, 20-mile marching on, exemplifying the philosophy "What does not kill me, makes me stronger." And in terms of good luck, the research seems to point that "who luck" is the biggest luck of all: Running into the right people at the right time. The Return on Luck is to recognise this, get them on your bus, and on the right seat. Quantitatively speaking ROL may be more important that known measures such as Return on Investment (ROI) or Return on Assests (ROA).