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GOOD TO GREAT

How companies successfully transition from being good companies to great

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ABSTRACT

How do great companies become so successful? How do market leaders stay ahead despite never-ending changes and new competitors in their industries? How do businesses survive and even thrive in times of uncertainty? Why are great companies and big brands not able to adapt to changing environment?

These are all complex questions that are hard to answer, given the sheer number of variables in business strategy. Jim Collins, former professor at Stanford Business School, took up this challenge to identify and evaluate the factors and variables that allow a small fraction of companies to make the transition from merely good to truly great. Over 1,400 Fortune 500 companies were examined in a five-year project and eleven great companies were identified from this research. Then, the defining characteristics that differentiated these 'great' firms from their competitors were quantified and analysed.

The resulting data are presented in his 2001 book, 'Good to Great - Why Some Companies Make the Leap...and Others Don't'. The overarching theme of Collins' arguments is the need to define a narrowly focused objective and field of competency and then focus all of the company's resources toward that area of strength.

Keywords : management theory, competition, strategy, leadership,

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Introduction

The global pandemic of 2020 has affected every aspect of the global economy and almost every industry across the globe has been thrown into disarray. The onset of the pandemic caused an abrupt halt to traditional ways of working and this trend is set to continue well into the new year. Lockdowns and social distancing measures are likely to continue. We have seen traditional companies struggle to meet the demands of constantly changing lockdowns and we have found more and more untried entrepreneurs turning their own interests and passions into alternative revenue streams. Next year will pose many challenges for businesses as the pandemic continues to have global impact.

As 2020 draws to a close, it is clear that global companies will not be able to go back to the same ways of working as before. However, uncertainty has always been part of the markets, and while that uncertainty might be deeper at the moment, it's incumbent to adjust and move forward. It is moments of uncertainty that hold the greatest entrepreneurial potential. At a time when businesses are facing increased uncertainty, forward-looking organizations will take this opportunity to reshape the way we work. It is precisely in these contexts — not in stable times — that the real opportunities lie to gain competitive advantage through strategy.

There is a surge in international businesses looking to change their management strategies, so that they can continue to improve their efficiencies and profitability. This search for new insights is set to reach even higher levels in 2021. Hence the need to revisit the strategies that have worked in the past for great companies that transformed themselves for the changing times.

Literature review

Management consultant James Collins described how companies transition from being good companies to great companies, and how most companies fail to make the transition in his 2001 book – 'Good To Great: Why Some Companies Make the Leap and Others Don't'.

'Great,' is a subjective term, operationally defined by Collins according to a number of metrics, including financial performance that exceeded the market average by several orders of magnitude over a sustained period of time. Using these criteria, Collins and his research team identified a set of elite companies that had made the transition from good to great - and sustained that performance for at least fifteen years.

James Collins identified the factors common to those few companies to sustain remarkable success for a substantial period of time.

We may think of the transformation of good to great as a process of buildup followed by breakthrough.

Within buildup and breakthrough, Collins found that success in three broad stages was likely to determine a company's ability to achieve greatness:

Disciplined people: means getting the right people and keeping them focused on excellence.

Disciplined thought: means being honest about the facts and avoid getting sidetracked

Disciplined action: means understanding what is important to achieve and what isn't.

Within each of those three broad stages Collins describes specific characteristics of companies that went from good to great

1. <u>Level 5 Leadership</u>

One of the most significant factors that differentiate good and great companies. is the quality and nature of leadership in the firm. Collins identifies "Level 5 leadership" as a common characteristic of the great companies assessed in the study. This type of leadership forms the top level of a 5-level hierarchy that ranges from merely competent supervision to strategic executive decision-making.

Collins found that many of those classified in this group displayed an unusual mix of intense determination and profound humility. These leaders often have a long-term personal sense of investment in the company and its success, often cultivated through a career-spanning climb up the company's ranks. The personal ego and individual financial gain are not as important as the long-term benefit of the team and the company to true Level 5 leaders. As such, the much-touted trend of bringing in a celebrity CEO to turn around a flailing firm is usually not conducive to fostering the transition from Good to Great.

A Level 5 leader is an individual who blends extreme personal humility with intense professional will. He is a self-effacing individual who displayed the fierce resolve to do whatever needed to be done to make the company great. Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company. They are ambitious, but their ambition is first and foremost for the institution, not themselves

Level 5 Leaders are a study in duality: modest and wilful, humble and fearless. They are comfortable with the idea that most people won't even know the roots of the success trace back to their efforts. One of the most damaging trends in recent history is the tendency to select dazzling, celebrity leaders and de-select potential Level 5 ones.

.Source : Jim Collins, *Good to Great* (2001)

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2. First Who, Then What

Collins uses a bus as a metaphor – where the business is the bus and the leadership team is the bus driver. The bus driver needs to first assess who should get on the bus and who needs to get off it – before figuring out where to drive it.

Source : Jim Collins, *Good to Great* (2001)

This same principle holds true for companies that made the transition from good to great. Finding the right people to drive your business takes precedence over all else – even before setting new direction, formulating new strategies or organizational structure. The process of securing high-quality, high-talent individuals must be undertaken before an overarching strategy can be developed. With the right people in the right positions, many of the management problems that plague companies and sap valuable resources will automatically dissipate. As such, companies seeking to make the transition from good to great must expend extra energy and time on personnel searches and decision-making.

According to Collins, 'people are not your most important asset; the right people are' – and who is right should be judged based on their character traits and innate capabilities, rather than specific skillsets or knowledge. Further, the research found no evidence linking executive compensation to

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the shift from good to great, as compensation should not be used to 'motivate' right behaviours from the wrong people, but ensure that the right people continue to stay.

Importance of maintaining rigorousness in all personnel decisions

Collins recommends moving potentially failing employees and managers to new positions, but not hesitating to remove personnel who are not actively contributing. He also recommends that hiring should be delayed until an absolutely suitable candidate has been identified. Both of these guidelines will save time, effort, and resources in the long-term.

How to be rigorous in recruitment and selection of employees?

(a) When in doubt, don't hire — keep looking for better candidates.
(b) You must let go of the wrong person right away. But don't overlook the possibility that the person might just be in the wrong seat.
(c) Put your best people on your biggest opportunities, not your biggest problems.

The right people don't need to be tightly managed or motivated; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great. If you have the wrong people, it doesn't matter whether you discover the right direction; you still won't have a great company. Great vision without great people is irrelevant.

The right people will do the right things and deliver the best results they're capable of, regardless of the incentive system. The purpose of a compensation system should not be to get the right behaviours from the wrong people, but to get the right people on the bus in the first place, and to keep them there.

3. Confront the Brutal Facts (But Never Lose Faith)

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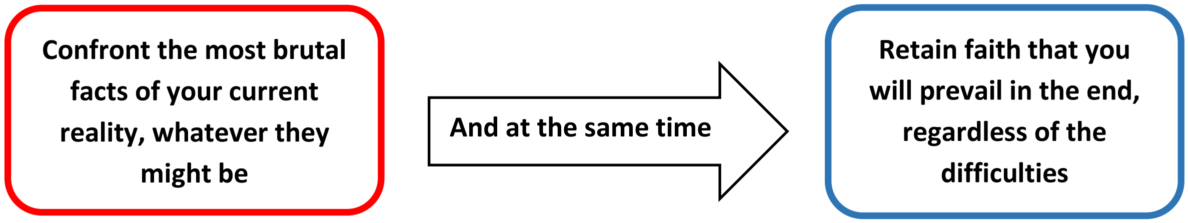

Source : Jim Collins, *Good to Great* (2001)

Great results can only be achieved when you making lots of good decisions and then execute well. To make good decisions you need to confront the facts, even if those facts are brutal and uncomfortable. To avoid distorting the facts you need an atmosphere where the truth is welcomed.

A primary task in taking a company from good to great is to create a culture wherein people have a tremendous opportunity to be heard and, ultimately, for the truth to be heard. Collins outlines a four-step process to promote awareness of emerging trends and potential problems:

(a) Lead with questions, not answers.

The leaders of great companies start by assuming they don't know what is required. They ask questions until a picture of reality and its implications emerges. The continued use of probing questions slowly brings the reality to the surface. This is the opposite of 'superstar' leaders who assume they have all the answers and just need to make their team execute. These leaders are likely to make bad decisions because they don't have a true understanding of the facts.

(b) Engage in dialogue and debate, not coercion.

Use questions not as a form of manipulation, but as a way to gain understanding.

(c) Conduct autopsies, without blame.

Things can and will go wrong. Even great companies make mistakes. Great companies don't try to hide these mistakes. Rather, they try to learn from them. Trying to blame someone for the mistake doesn't even enter into the conscious thoughts of Good to Great leaders.

(d) Build "red flag" mechanisms.

Great companies pay attention to what's really important and ignore everything else. They build red flag mechanisms. These turn raw data into information that cannot be ignored.

4. The Hedgehog Concept

The Hedgehog Concept is an understanding of what you can be the best at. To explain this concept let's look at the difference between a fox and a hedgehog.

A fox is a very clever creature. It sees the world in all its complexity and can pursue many goals at once.

A hedgehog is a much simpler creature. It doesn't get bogged down by all the complexity. It's really only able to do one thing well – curl up into a ball to protect itself. This single response is simple and works as a response to any attack. All they see is a single goal and they execute to achieve that goal.

Good to Great companies behave in a similar way to a hedgehog. They stick to doing what they are best at and avoid getting distracted. They focus on doing one thing better than anyone else in the world. It's incredibly easy to get distracted, with even great companies having to fight to stop this from happening.

So, how does an organisation become more like a hedgehog and less like a fox? You can find your inner hedgehog at the intersection of these three questions:

(a) What do you feel most passionate about?

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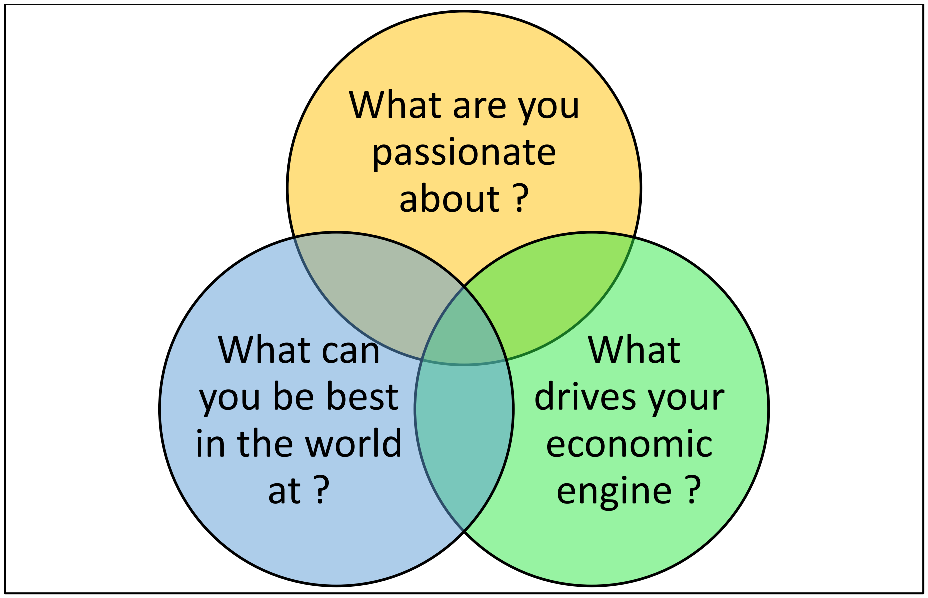
(b) What can you be best in the world at?

(c) What drives your economic engine?



.Source : Jim Collins, *Good to Great* (2001)

5. A Culture of Discipline

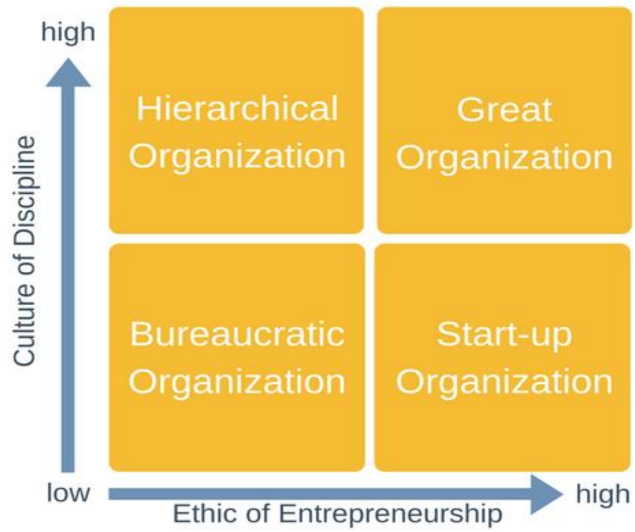
Sustained great results depend upon an organizational culture of discipline. In this type of organization, each individual functions as an entrepreneur, with a deeply rooted personal investment in both their own work and the company's success. The single most important discipline is obsessive adherence to the Hedgehog Concept by shunning opportunities that do not meet the singular 'better than anyone else' criteria.

As the companies grew, they instilled a culture of discipline through disciplined people, thought and action. This culture of discipline, when combined with the spirit of entrepreneurship, jointly delivered superior results.

it is important that within this culture of discipline, every team member is afforded the degree of personal empowerment and latitude that is necessary to ensure that they will be able to go to unheard-of extremes to bring the firm's envisioned objectives into existence.

Collins outlines a five-step process to support a culture of discipline –

(a) Build a culture of freedom and responsibility but within a defined framework.
(b) Get the right people on board that have the will to achieve their responsibilities.
(c) Build a strong culture, not a dictatorship.
(d) Exercise extreme focus in adhering to your Hedgehog Concept
(e) Create a list of things you will stop doing so you can focus better.

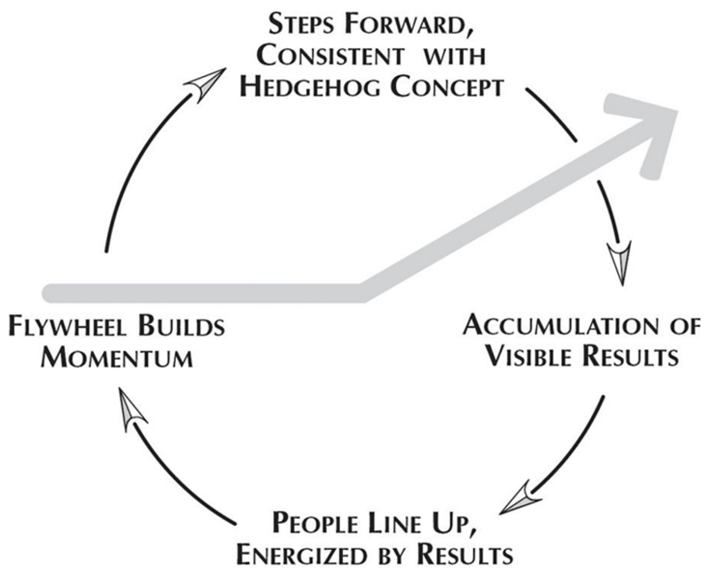


Source : Jim Collins, *Good to Great* (2001)

6. <u>Technology Accelerators</u>

Good to Great companies use technology is used to accelerate rather than create success. They do not jump onto new technology trends haphazardly; and invest in new technology only if it serves their Hedgehog Concept. They view how technology is used as being far more important than adopting the latest technology

7. <u>The Flywheel Effect</u>



THE FLYWHEEL EFFECT

Source : Jim Collins, *Good to Great* (2001)

Collins describes the advantageous business cycle that can foster the transition from Good to Great as The Flywheel effect.

(a) Executives initiate positive momentum by making decisions and taking actions that reinforce and affirm the company's "hedgehog" competencies.
(b) This, in turn, results in the accumulation of tangible positive outcomes, which serve to energize and earn the investment and loyalty of the staff.
(c) This revitalization of the team serves to further build momentum.
(d) If the cycle continues to repeat in this manner, the transition from *Good to Great* is likely to transpire.

Good-to-Great companies applied the above six strategies consistently over a long period of time, until the combined steps and activities accumulate to create a point of breakthrough. It's like how a flywheel picks up momentum turn by turn, until it's almost unstoppable.

The Doom Loop is the opposite and it is how bad companies do things. The Doom Loop is characterized by reactive decision-making, an overextension into too many diverse areas of concentration, following short-lived trends, frequent changes in leadership and personnel, loss of morale, and disappointing results. Companies that fall into the Doom Loop genuinely want to effect change—but they lack the discipline that produces the Flywheel Effect.

Source : Jim Collins, *Good to Great* (2001)

The Doom Loop

Conclusion

Companies that enjoy enduring success have core values and a core purpose that remain fixed, while their business strategies and practices endlessly adapt to a changing world.

The transformation of a company from merely good to great is not the result of a miraculous, overnight success. Instead, a down-to-earth, pragmatic, committed-to-excellence process—a framework—kept each company, its leaders, and its people on track for the long haul. In each case, it was the triumph of the Flywheel Effect over the Doom Loop, the victory of steadfast discipline over the quick fix.

The Good to Great management framework provides an insight into the dimensions of leading an organization that consistently delivers, demonstrates excellence and can one day be considered great. The key takeaway from Good to Great is discipline. To go from a good organization to a great one you need disciplined people, disciplined thought, and disciplined action.

Limitations

"Good to Great" has generally used financial success as a proxy for greatness. The author wanted to find out how good companies suddenly surged, with their stock value beating the market over the course of at least 15 years while their competitors remained where they were. So even though he brings up other factors, success ends up coming back to the bottom line. Other aspects of greatness — working conditions, employee welfare, societal impact, corporate culture – were not considered.

The author uses the "hedgehog and fox" explanatory model, but offers no proof that in fact this is a good model to understand business behavior.

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