

Making the Leap to Greatness

Good vs. Great: Enemies?

Good is the enemy of great. If you run a bad company, the motivation to change is strengthened by the threat of impending bankruptcy. But if you run a good company, things are, well... good. And good companies may feel less compelled to improve.

A team led by author Jim Collins spent five years examining publicly traded companies to determine why some companies make the leap to greatness while others remain simply good. Findings were published in the book *Good to Great*.

Greatness Defined

The study only focused on publicly traded companies since their financial data is readily available. The team defined great companies as those that beat the general stock market by an average of seven times (7x) over fifteen years. This is better than double the results delivered by some of the world's greatest companies, including Intel, Coca-Cola, and General Electric.

Special attention was paid to companies that delivered average or poor results for fifteen years, followed by a sudden shift to great results. The team's driving question: What are the universal distinguishing characteristics that cause a company to go from good to great? Or, in the diagram to the right: What's inside the black box?

What Great Companies Do

Collins and his team observed that great companies are great because of the way they think and act. This newsletter will deal with two findings unveiled in the study:

- The Hedgehog Concept
- The Stockdale Paradox

The Fox and the Hedgehog

The hedgehog concept comes from an ancient fable about a fox and a hedgehog. The fox is hungry for a hedgehog dinner. Cunning and skillful, the fox is ever ready with a clever plan to attack and eat the hedgehog.

The hedgehog is less clever, but it has one (and only one) very effective plan: To roll itself into a ball, exposing its needles and giving the fox a powerful incentive to look elsewhere for supper.

The fox has many clever plans, and the hedgehog has one very effective plan. In the fable, simplicity triumphs over complexity and the hedgehog wins.

Hedgehogs and Business

The Good to Great team discovered that great companies were like hedgehogs in this respect: They stuck to the one thing they were good at. Further, great companies

2. **Sound Economics.** What will customers pay the company to do or provide? What drives the economic engine?

3. **Best in the World.** What can the company do better than any other company in the world?

Deep Passion

Gillette was cited as a great company where employees were excited about the advanced technology in their razors. They decided on advanced-technology razors largely because they couldn't get excited about competing in the price-sensitive disposable market.

Employees of the Federal National Mortgage Association (Fannie Mae) could never get excited about crunching numbers, but the idea of helping people buy homes proved exciting. Fannie Mae



only fix their focus after an honest and serious examination of their strengths & weaknesses. The best focal point lies at the intersection of three interlocking rings:

1. **Deep Passion.** What does the company feel deeply passionate about? What gives them that "I can't believe I get paid to do this" feeling?

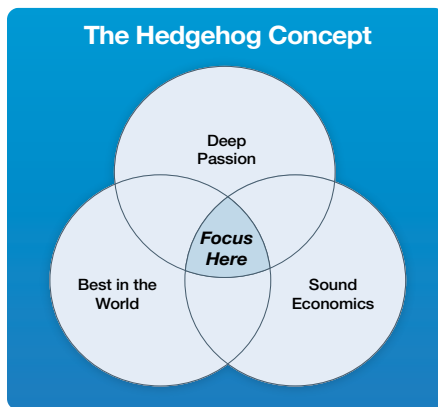
employees are on a heroic quest to democratize the housing process.

The Good to Great team observed that passion cannot be forced, it can only be discovered. Forcing your company to be passionate about an idea is like forcing yourself to like a particular flavor of ice cream. You either like it or you don't.

Sound Economics

What will customers pay for? And what is the best way to measure it? The great companies found one denominator (profit per store, profit per employee) that every person in the company could focus on during the march to greatness.

One great company, Walgreens, chose profit per customer visit as the best economic measuring stick for their business. The decision was driven by their discovery that customers will pay for convenience, and the most convenient store locations are also the most expensive to lease & maintain. The only way to justify expensive locations: make every customer visit as profitable as possible.



Best in the World

“They stick with what they understand and let their abilities, not their egos, determine what they attempt,” says investor Warren Buffett about Wells Fargo. The bank had recently decided to shut down its international operations and focus on the Western United States when Buffett made the comment. Other banks, notably Bank of America, pursued every possible opportunity regardless of its fit with their skill set. The result: Wells Fargo outperformed and outgrew their much larger competitor.

The Stockdale Paradox

Throughout the book, the Good to Great team developed metaphors to describe their observations. One metaphor came from the real life experience of Admiral Jim Stockdale.

Stockdale was the highest ranking U.S. military officer captured during the Vietnam War. During eight years of imprisonment, he and his fellow soldiers

The Stockdale Paradox

- Be brutally honest about the obstacles that face your company, and at the same time...
- Maintain unwavering faith that you will defeat the obstacles.

were tortured repeatedly and forced to participate in propaganda films as “well treated” prisoners. The prisoners had no idea whether they would survive to see their families again. Stockdale survived, and after his release, the Admiral and his wife co-authored an account of his ordeal in the book *In Love and War*.

Optimism and Discouragement

Imprisonment is far more serious than anything most business executives will ever face. Still, the Good to Great team and Admiral Stockdale were able to draw parallels between growing a company and surviving life as a POW. For example, the Admiral observed that optimists had the hardest time in prison. Optimistic prisoners always believed “we’ll be released next Christmas” only to be discouraged year after year. Many optimists eventually died heartbroken in prison.

Stockdale’s policy was to be brutally honest about the situation he was facing and to deal with it directly day to day. At the same time, he maintained faith that he would prevail in the end. During the pain of the ordeal, he decided to turn the experience into the defining event of his life. Thus the paradox: He brutally confronted his reality, yet he maintained faith that he would prevail in the end.

Great Companies Respond Differently to Adversity

Collins and his team observed that companies, being made up of people, behave like people. What separates the good from the great is not whether they have difficulties, but how they deal with those difficulties. Every company faces obstacles of one type or another. But the great companies face those obstacles directly, recognizing them for what they are, while at the same time maintaining faith that they will prevail.

Stockdale Paradox Examples

The banking industry became commoditized during the 1980s period of de-

regulation. Some banks left the industry (voluntarily or otherwise). Wells Fargo, however, thrived and grew during the upheaval. They confronted the brutal reality of deregulation and commoditization by focusing on one region of the United States and moving more of their operations to small branches and ATMs, thereby increasing profit per employee. Other banks, that did not confront changing reality, were either dissolved or acquired.

Does Technology Matter?

What about technology? Great companies are not necessarily those that spent the most on technology. This makes sense when you consider that technology is only a tool; only a bus that a company chooses to ride. If the bus is headed in the wrong direction, a faster bus will only make things worse. But if the bus is headed in the right direction, then a faster bus might accelerate the move to greatness.

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