

Matthew's Book Club Summary #17

By: Matthew Klippenstein

Date: April 23, 2010

Title: Good to Great

The book club started as an informal, fun way to explore and consider business ideas relevant to our work with colleagues. The format consists of one person (usually Matthew) reading a book and writing a summary for discussion during team meetings. This allows the other team members to benefit from the book's insights, without carving time in their schedule to read the full volume.

The idea was to summarize *an interesting part* of each chapter in a paragraph or two, and where applicable, note how these could be relevant to the workplace. This provides the reviewer with practise condensing a mass of data into a few pieces of key information: an underappreciated skill. The reviews are meant to be accurate but light-hearted, on the assumption that people learn more when they're having fun.

Matthew's company gave permission for these to be distributed to non-employees as long as the employer-specific content was removed, for which he is sincerely appreciative.

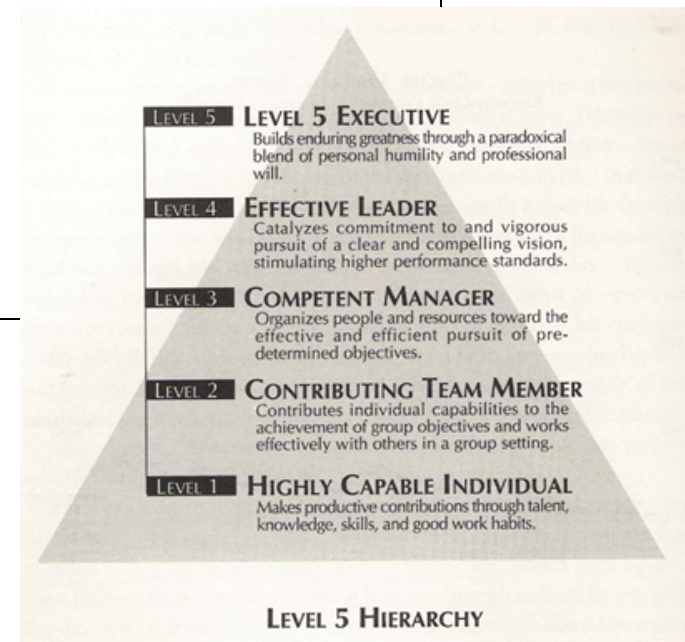
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About the author:

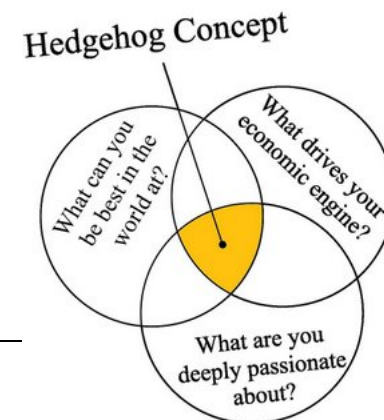
Jim Collins is a guy who researches successful companies (Built to Last), companies that become successful (Good to Great) and companies that become unsuccessful (How the Mighty Fall). He seems to have been the first to really try to make data-driven distinctions between companies, instead of spinning premature conclusions into a good story and ignoring other evidence. None the less, his books have come under fire for not being rigorous enough. As an "antidote" we will cover a book called The Halo Effect in the coming months.

This book is an attempt to compare wildly-successful companies, with competitors in the same industries who weren't as successful, to identify key factors which help companies go from good to great.

Ch	Title	Summary
1	Good is the enemy of Great	<p>He introduces his list of eleven companies which went from good to great. Most of them are still reasonably successful as of 2010 – though that might be due to incompetent competitors!</p> <p>A few findings included that great companies:</p> <ul style="list-style-type: none"> - promoted CEO's from within (instead of hiring in outsiders) - focused on what the company should stop doing, to be great - became great gradually; no big fanfare or kick-off turned things around
2	Level 5 Leadership	<p>Great companies had "Level 5 Executive Leadership" as per the chart. Such executives were modest, humble (no fancy houses), quick to give credit or take blame... but very determined to see the company succeed. They typically credited much of their success to others... or to luck!</p> <p>Comparison companies tended to bring in highly-paid, egotistical "superstar" leaders from outside.</p>
3	First who... then what	<p>It's more important to get great leaders and then figure out the strategy, rather than the other way around. And great leadership teams usually argue a lot, but then unite behind the eventual decisions.</p> <p>These companies kept their best employees, reasoning that they could only grow as fast as their ability to find and keep great people. Instead of risking a bad hire, they'd keep looking; and they'd assign their best people to their biggest opportunities – not their biggest challenges.</p>



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4	Confront the brutal facts (yet never lose faith)	<p>Great companies create a culture where people can be heard. That allows uncomfortable questions and awkward truths to come into the open, so the company can react before a problem becomes a big or huge problem.</p> <p>Even in crisis, great companies don't waste time trying to "motivate" people. They hear out everyone's concerns, and by so doing, prevent their employees from becoming de-motivated. (People get demotivated if they think their ET isn't addressing the real problems, or isn't aware of them.)</p> <p>This chapter has an iron-clad rule of business: if you can't be #1 or #2 in a market, leave it.</p> <p><i>This implies that companies should decide to eliminate business lines where they can't be competitive... or the market may decide for them. This reasoning is similar to Ricardo's theory of comparative advantage, which says you should "stick to your knitting", if knitting's what you're best at.</i></p> <p><i>A weakness overlooked in this type of thinking is that things can change over time. Even if you're not #1 in your market today, you could be tomorrow, if you make the right decisions (investment allocations, partnerships, etc). An example might be how Japan became one of the world's biggest steel manufacturers in the 1960's, despite having minimal coal and iron deposits!</i></p>
5	The hedgehog concept (simplicity within three circles)	<p>Great companies focused on something they felt passionate about, that drives the company's growth, which they could be best in the world at. They didn't waste their time on other stuff.</p> <p>It usually took a few years for the companies to figure out what their Hedgehog was. But once they did, and shifted resources from other projects to the Hedgehog, they started to enjoy success.</p>



Ch	Title	Summary
		<p><i>On the theme of “not wasting time on other stuff”, GE used this strategy during Jack Welch’s tenure to ensure no business units were held back by “weaker sisters”. As well, electronics retailer Best Buy has currently outsourced most of its IT, figuring that a specialist consulting firm (Accenture, I think) can perform this function better and cheaper – allowing Best Buy to grow its retail empire with fewer distractions.</i></p>
6	A culture of discipline	<p>Bureaucratic rules are designed to prevent past problems from re-occurring. They’re like an air filter that catches contaminants. Unfortunately, as you find more and more problems over time, you need more and more rules.</p> <p>Instead of creating bureaucracy, Abbott Labs created a culture of discipline, by having every manager <i>directly</i> responsible for all their group’s expenses. The managers figured out how to cut administrative costs, and used the savings to fund “real work”.</p> <p>The chapter also says that a company’s “stop doing” lists are more important than its “to do” lists. Note: “stop doing” lists have personal applicability too!! ☺</p>
7	Technology accelerators	<p>This chapter argues that companies with strong cultures will figure out how to make use of new technologies. Toyota made great cars before and after robotics got big; and GM made terrible cars despite putting robots on the line. This partially reflects what was covered in <u>The Toyota Way</u>.</p> <p><i>This may overstate the point: disruptive technologies can clobber a company, no matter how strong they otherwise are. Barnes & Noble seemed to be doing pretty well, but Amazon has usurped them as the world’s biggest bookseller, using a new business model. The best slide rule or typewriter manufacturers (who probably didn’t have any core expertise in microprocessors) would still have gotten obliterated by calculator / computer companies. And Microsoft, which was the tech behemoth, has completely missed the boat on mobile OS.</i></p>

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8	The flywheel and the doom loop	<p>There was never a magical moment when the mediocre-to-good companies studied, became great ones. Rather, it was an iterative process of improvements building on improvements. Like compound interest.</p> <p>(Imported) Leaders who take dramatic action to achieve a breakthrough, are usually a sign that the company is in a "doom loop".</p> <p>Amusingly, a few chapters after praising the head of Kimberley-Clark for taking bold action leading to dramatic success, the author criticizes the head of Harris Corporation, for taking bold action leading to dramatic failure. Ultimately, they both took an astonishing risk – one just got lucky (his own words).</p> <p>I took away the message that success is always built gradually – whether it's building up morale and engagement, quality, profits, or company greatness.</p>
9	From good to great, to built to last	<p>This is a bit of a victory lap for the author, tying in this very successful book with his prior also-successful book.</p>

List of eleven case study companies from Good to Great:

Company (as of 2000)	Still successful in 2010?
Abbott	yes
Circuit City	bankrupt
Fannie Mae	bankrupt / gov't bailout
Gillette	yes (taken over)
Kimberly-Clark	yes
Kroger	yes
Nucor	yes (stock up 300%)
Philip Morris	no (stock down 75%)
Pitney Bowes	no (stock down 50%)
Walgreens	yes
Wells Fargo	bankrupt / gov't bailout

Unless noted, "yes" means the stock was flat for ten years. While that doesn't sound successful, that's about par for the US stock market in that timeframe. ☺