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Chapter 10 review answers

In an in-depth interview, we asked Collins about his research and ideas impact on the economy, the stock market, and the very nature of executive management. The good-to-great companies that you wrote about all achieved remarkable stock market results over 15 years. But today, the stock market is down. Does that mean we won't see any good-to-great ones today? First, I want to correct a great misconception. The stock market is not down. How does the stock market look compared to 1985? The stock market is not down. How does it look relative to the 1990s? The stock market is not down. The market was irrational out of whack – we didn't have a stock market; we had a speculative casino. The tech bubble was not the new economy – there is a new economy that is going on for years at a deeper level. But the brutal fact that the companies that were at the top of the tech bubble had no results. You can't make zero profits and claim that you have results. For companies that had great results before the bubble burst, they're down the period now, but so what? The bottom line about a company like Cisco is, we don't know the answer yet. It could be that these companies are only very difficult in 6-12 months. Let me use analogy. Let's say you have a great basketball dynasty like the UCLA Bruins with John Wooden. This is a team that is going to win 10 NCAA championships in 12 years. They're a team that went from good to great. But in 1970 they lost three games. Does that mean we're going to write them off and say they're not a great team? We need to look at the longer term. The same goes for the companies that got caught in the bubble. It was too short a period of time. It will take more time to tell which companies that are in trouble now are simply going through a short period of time and will have the stamina to come back. But for many entrepreneurs, the current recession is a sign of the new economic demise. This is one of the most wonderful times in history. Two or three years ago, what was the main complaint that we heard? It's so hard to get good people! Whine, whine, whine! Today, we've got the greatest chance that we're going to have decades to snag a boatload – not a busload, but a boatload – of great people. And great companies always start with what, not what. We can finally get to the right side of the packard law. Packard's law is like the law of physics for great companies. It says that no company can become or stay big if it allows its growth rate of revenue to exceed its growth to get the right people in a sustainable way. It is one of those eternal truths that transcend technology and the economy. Now, instead of trying to accumulate capital, we can accumulate people. If I show the company today, I would have one priority above everyone else: to get as many of the best people as I could. I'd put aside everything else if I could afford it – buildings, new ones &R - fill my bus. Because everything's coming back. My flywheel will start turning. And one biggest constraint on growth and my organization's success is not markets, no technology, no chance, no stock market. If you want to be a big company, one of the biggest limitations of your ability to grow is the ability to gain and hang on to enough of the right people. It's also a great time to force yourself to look back. When you're breaking Packard's Law, you'll probably let a lot of the wrong people on the bus. This is a good time to get them off. In fact, it's a little easier to do it now. We can blame it on the circumstances. What else would you do to benefit from this re-evaluation period? It's also a great time to ask yourself some really hard questions. In a time of irrational prosperity, where the market would give you money, whether you delivered or not, many companies had not answered any of the questions in the three circles (What can we be the best in the world? What is the economic denominator that best drives our economy? And what are our main people deeply passionate about?). They had no concept of what they could do better than any other company in the world that was sustainable, they had no profit denominator, and the only thing they had a passion for was flipping the company. Now we can no longer live in this fantasy land. We find it hard to look at all the things we do and put them all in a three circle test. All the things that fail the test we have to stop doing – today. I see a lot of companies that found themselves with a lot of capital. So they went to all sorts of acquisitions or new ventures or new directions, just because they could. But they do not always fit into three circles. Today the challenge is for them to prune away. Those who specify their three circles will come out of this just fine. Those who do not deserve to die. Ceos today find themselves in little time to prove their worth. What advice would you give the CEO about the hot seat? If I were ceo of a hot seat taking over a company that I wanted to move from good to big, here's what I'd do. I'd take that good-to-great stock chart, and I'd put it in front of my directors. I would say: We are on the left side of this curve. We want to be on the right side of the curve. Turn Right? If that's what we all want, we know what it's going to get to. You can't keep lurching from CEO to CEO. If you do this, you'll find yourself in the Doom Loop – and then we end up as one of the comparison companies, not one of the big ones. I don't think all directors are stupid. Most of them are intelligent, but they act out of ignorance rather than lack good intent. We need to reach them over the head with empirical results. Our task is to beat the market in a sustainable way over time. We need to think about the stock price within five years. And we have to start doing things that will need to get that flywheel turning. Finally, if I'm ceo, I want the board to give me the following confidence: No matter how long or brief my tenure as CEO may be, whoever you choose as my successor is to pick that flywheel with cords and keep pushing consistently in the direction. I can only get a flywheel turning at RPMs 16. We're not going to do the Doom Loop.Ceos who had their companies from good to big were largely anonymous – far from the celebrity CEOs we read about. Is this an accident? Does it cause and effect? I believe it is more a matter of cause and effect than an accident. There is something directly related between the absence of celebrity and the presence of good-to-great results. Why? First, if you are a celebrity, the company turns into one genius with 1,000 assistants. It creates a sense that everything is really about the CEO. And this leads to all sorts of problems – if a person walks away or if a person turns out not to be a genius after all. On a deeper level, we found that for managers to make something great, their ambitions are about great work and business, not about themselves. This does not mean that they have no ego. That doesn't mean they don't have any self-needs. This means that in the decision point after the decision point – at critical situations where Choice would favor their ego and B's choice would favor the company and its work – time and time again these leaders choose the choice of B. Celebrity CEOs, at the same decision-making points, are more likely to favor themselves and the ego over business and work. Like anonymous executives, most companies that made the transformation from good to big are unheralded. What does that tell us? The truth is, most people don't work the most glamorous things in the world. They're doing a real job – which means that most of the time they're doing a heck of a lot of drudgery in just a few places of excitement. Some people are leaving baked bread. Some of what builds retail stores. The real work of the economy is done by people who make cars that sell real estate, who run grocery stores and banks. So one of the big conclusions of this study is that you can be in a great company and do it in steel, pharmacies, grocery stores. It's just not the case if you're not in Silicon Valley, you're not cool. It doesn't matter where you are. So no one has the right to whine about their business, their industry, or the kind of business they do – ever again. Did the 11 companies that transformed the transformation benefit from their anonymity? One of the big advantages that these companies had was, no one cared! Kroger started the transition; Nucor began its transition; no one waited much. They could have been a lyse and In fact, if I took over the company and tried to get it to go from good to big, I would tell my vice president about communication, that his job was to make the whole world think that we were constantly on the edge of fate. Over the course of our research, we actually printed out transcripts of CEO presentations to analysts with good-to-great companies and comparison companies. We read them all. And that's amazing. Good-to-great people always talk about the challenges they face, the programs they're building, the things they worry about. You go to comparison companies, they're constantly hyping themselves, they're selling in the future – but they never deliver results. If I'm not the CEO, how do good-to-great lessons apply to me? Good-to-great concepts are applicable in any situation – unless you can choose the people around you. This is very important. But basically, we really – we have a lot of leeway over people in our lives, people we decide to let our bus, whether it's our department at work or our personal lives. But the basic message is this: Build your flywheel. You can do it. You can start building momentum for something for which you have a responsibility. You can build a large department. You can build a large community of churches. You can take each of the good-to-great ideas and apply them to your work or your life. What did your study teach you about business change in general? Is it essentially a message to go back to basics? Very rarely, major changes ever lead to results in a sustainable way. This is one of the really important conclusions of the book. We started with 1435 companies. And 11 companies did it. Let's look at this fact for a while. The fact is that this does not happen very often. Why not? Because we don't know what we're doing! And because we don't know what we're doing, we'll launch into all sorts of things that don't deliver results. We end up as a bunch of primitive dances around the campfire chanting at the moon. I very much believe that we need science to understand what is really needed to change things. Is it back to basics? No, it's forward to understand. Why is it back to the basics to say that business leaders need to be ambitious for their companies, not for themselves? Why is it back to basics to do what and people question first and what and where to question the second? Because when it's back to basics for a company to start with a question like Why have we sucked for 100 years and what are the brutal facts that we have to confront? Why is it back to basics to say that stopping lists are more important than to-do lists? And since then, when is it back to basics to say that technology is just an accelerator and is not the creator of anything? I don't think these concepts are back to basics. Because if they are, we should be able to go back in time and find that people are using these ideas. People don't - who why is only 11 out of 1435. So, no, it's not back to basics. It's forward to understand. What is your assessment of the new economy? We have seen a lot of changes and we have seen a lot of backlash against the change. How do you make sense of it all? The tremendous change that is happening around us makes it the most exciting time in history to be alive. It's really fun. All these changes – changes in technology, globalization – they're brutal facts that need to be integrated into whatever decisions we make. The people at Walgreens didn't ignore the Internet because they were focused solely on the basics. They faced brutal facts on the internet and then asked: How does it fit into our three circles, and how can we use it to spin our flywheel faster? You never ignore the changes – you hit them head-on as brutal facts, or you come to them with a great sense of glee and excitement. These changes, this new technology opens up a way for you to dominate, is even better as a company. All good-to-great companies made changes and used them to their advantage, often with great glee. When the new piano came along, Mozart didn't hang up his music. He did not say, There is this new piano! Harpsichu is out of it, so I've washed up as a composer! He thought: It's so cool! I can do it out loud with the piano forte! It's really neat! He kept the discipline of writing great music and, at the same time, embraced with great glee and excitement the invention of the piano. With all the changes around us, we must be just like Mozart. We maintain great discipline on our music, but at the same time we embrace things that can allow us to make even more music. Alan M. Webber (awebber@fastcompany.com) is fast company's founding editor. Jim Collins (jimcollins@aol.com) wrote an essay built to flip the March 2000 issue of Fast Company. Your New Book, Good to Great: Why Some Companies Make a Leap... And others are not, will be available in October. October.