That’s what makes death so hard—unsatisfied curiosity.

—BEVY MARKHAM,
West with the Night

Good is the enemy of great. *

And that is one of the key reasons why we have so little that becomes great.

We don’t have great schools, principally because we have good schools. We don’t have great government, principally because we have good government. Few people attain great lives, in large part because it is just so easy to settle for a good life. The vast majority of companies never become great, precisely because the vast majority become quite good—and that is their main problem.

This point became piercingly clear to me in 1996, when I was having dinner with a group of thought leaders gathered for a discussion about organizational performance. Bill Meehan, the managing director of the San Francisco office of McKinsey & Company, leaned over and casually confided, “You know, Jim, we love Built to Last around here. You and your coauthor did a very fine job on the research and writing. Unfortunately, it’s useless.”

Curious, I asked him to explain.

“The companies you wrote about were, for the most part, always great,” he said. “They never had to turn themselves from good companies into great companies. They had parents like David Packard and George Merck, who shaped the character of greatness from early on. But what about the vast majority of companies that wake up partway through life and realize that they’re good, but not great?”

I now realize that Meehan was exaggerating for effect with his “useless” comment, but his essential observation was correct—that truly great com-
panies, for the most part, have always been great. And the vast majority of good companies remain just that—good, but not great. Indeed, Meehan's comment proved to be an invaluable gift, as it planted the seed of a question that became the basis of this entire book—namely, Can a good company become a great company and, if so, how? Or is the disease of "just being good" incurable?

Five years after that fateful dinner we can now say, without question, that good to great does happen, and we've learned much about the underlying variables that make it happen. Inspired by Bill Meehan's challenge, my research team and I embarked on a five-year research effort, a journey to explore the inner workings of good to great.

To quickly grasp the concept of the project, look at the chart on page 2.* In essence, we identified companies that made the leap from good results to great results and sustained those results for at least fifteen years. We compared these companies to a carefully selected control group of comparison companies that failed to make the leap, or if they did, failed to sustain it. We then compared the good-to-great companies to the comparison companies to discover the essential and distinguishing factors at work.

The good-to-great examples that made the final cut into the study attained extraordinary results, averaging cumulative stock returns 6.9 times the general market in the fifteen years following their transition points. To put that in perspective, General Electric (considered by many to be the best-led company in America at the end of the twentieth century) outperformed the market by 2.8 times over the fifteen years 1985 to 2000. Furthermore, if you invested $1 in a mutual fund of the good-to-great companies in 1965, holding each company at the general market rate until the date of transition, and simultaneously invested $1 in a general market stock fund, your $1 in the good-to-great fund taken out on January 1, 2000, would have multiplied 471 times, compared to a 56 fold increase in the market.

These are remarkable numbers, made all the more remarkable when you consider the fact that they came from companies that had previously been so utterly unremarkable. Consider just one case, Walgreens. For over forty years, Walgreens had bumped along as a very average company, more or less tracking the general market. Then in 1975, seemingly out of nowhere—bang!—Walgreens began to climb...and climb...and

*A description of how the charts on pages 2 and 4 were created appears in chapter 1 notes at the end of the book.
climb ... and climb ... and it just kept climbing. From December 31, 1975, to January 1, 2000, $1 invested in Walgreens beat $1 invested in technology superstar Intel by nearly two times, General Electric by nearly five times, Coca-Cola by nearly eight times, and the general stock market (including the NASDAQ stock run-up at the end of 1999) by over fifteen times."

How on earth did a company with such a long history of being nothing special transform itself into an enterprise that outperformed some of the best-led organizations in the world? And why was Walgreens able to make the leap when other companies in the same industry with the same opportunities and similar resources, such as Eckerd, did not make the leap? This single case captures the essence of our quest.

This book is not about Walgreens per se, or any of the specific companies we studied. It is about the question—Can a good company become a great company and, if so, how?—and our search for timeless, universal answers that can be applied by any organization.

Our five-year quest yielded many insights, a number of them surprising and quite contrary to conventional wisdom, but one giant conclusion stands above the others: We believe that almost any organization can substantially improve its stature and performance, perhaps even become great, if it conscientiously applies the framework of ideas we’ve uncovered.

This book is dedicated to teaching what we’ve learned. The remainder of this introductory chapter tells the story of our journey, outlines our research method, and previews the key findings. In chapter 2, we launch headlong into the findings themselves, beginning with one of the most provocative of the whole study: Level 5 leadership.

**UNDAUNTED CURIOSITY**

People often ask, "What motivates you to undertake these huge research projects?" It's a good question. The answer is, "Curiosity." There is nothing I find more exciting than picking a question that I don't know the answer to and embarking on a quest for answers. It's deeply satisfying to climb into the boat, like Lewis and Clark, and head west, saying, "We don't know what we'll find when we get there, but we'll be sure to let you know when we get back."

Here is the abbreviated story of this particular odyssey of curiosity.

**Phase 1: The Search**

With the question in hand, I began to assemble a team of researchers. (When I use "we" throughout this book, I am referring to the research team. In all, twenty-one people worked on the project at key points, usually in teams of four to six at a time.)

Our first task was to find companies that showed the good-to-great pattern exemplified in the chart on page 2. We launched a six-month "death march of financial analysis," looking for companies that showed the fol-
lowing basic pattern: fifteen-year cumulative stock returns at or below the
general stock market, punctuated by a transition point, then cumulative
returns at least three times the market over the next fifteen years. We
picked fifteen years because it would transcend one-hit wonders and
lucky breaks (you can’t just be lucky for fifteen years) and would exceed
the average tenure of most chief executive officers (helping us to separate
great companies from companies that just happened to have a single
great leader). We picked three times the market because it exceeds the
performance of most widely acknowledged great companies. For
perspective, a mutual fund of the following “marquis set” of companies beat
the market by only 2.5 times over the years 1985 to 2000: 3M, Boeing,
Coca-Cola, GE, Hewlett-Packard, Intel, Johnson & Johnson, Merck,
Motorola, Pepsi, Procter & Gamble, Wal-Mart, and Walt Disney. Not a
bad set to beat.

From an initial universe of companies that appeared on the Fortune 500
in the years 1965 to 1995, we systematically searched and sifted, eventually
finding eleven good-to-great examples. (I’ve put a detailed description
of our search in Appendix 1.A.) However, a couple of points deserve brief
mention here. First, a company had to demonstrate the good-to-great pat-
tern independent of its industry; if the whole industry showed the same pat-
tern, we dropped the company. Second, we debated whether we should
use additional selection criteria beyond cumulative stock returns, such as
impact on society and employee welfare. We eventually decided to limit
our selection to the good-to-great results pattern, as we could not conceive
of any legitimate and consistent method for selecting on these other variables
without introducing our own biases. In the last chapter, however, I
discuss the relationship between corporate values and enduring great com-
panies, but the focus of this particular research effort is on the very specific
question of how to turn a good organization into one that produces sus-
tained great results.

At first glance, we were surprised by the list. Who would have thought
that Fannie Mae would beat companies like GE and Coca-Cola? Or that
Walgreens could beat Intel? The surprising list—a dowdier group would
be hard to find—taught us a key lesson right up front. It is possible to turn
good into great in the most unlikely of situations. This became the first of
many surprises that led us to reevaluate our thinking about corporate
greatness.

<table>
<thead>
<tr>
<th>Company</th>
<th>Results from Transition Point to 15 Years beyond Transition Point*</th>
<th>T Year to T Year + 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbott</td>
<td>3.98 times the market</td>
<td>1974–1989</td>
</tr>
<tr>
<td>Circuit City</td>
<td>18.50 times the market</td>
<td>1982–1997</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>7.56 times the market</td>
<td>1984–1999</td>
</tr>
<tr>
<td>Gillette</td>
<td>7.39 times the market</td>
<td>1980–1995</td>
</tr>
<tr>
<td>Kimberly-Clark</td>
<td>3.42 times the market</td>
<td>1972–1987</td>
</tr>
<tr>
<td>Kroger</td>
<td>4.17 times the market</td>
<td>1973–1988</td>
</tr>
<tr>
<td>Nucor</td>
<td>5.16 times the market</td>
<td>1975–1990</td>
</tr>
<tr>
<td>Philip Morris</td>
<td>7.06 times the market</td>
<td>1964–1979</td>
</tr>
<tr>
<td>Pitney Bowes</td>
<td>7.16 times the market</td>
<td>1973–1988</td>
</tr>
<tr>
<td>Walgreens</td>
<td>7.34 times the market</td>
<td>1975–1990</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>3.99 times the market</td>
<td>1983–1998</td>
</tr>
</tbody>
</table>

*Ratio of cumulative stock returns relative to the general stock market.

**Phase 2: Compared to What?**

Next, we took perhaps the most important step in the entire research
effort: contrasting the good-to-great companies to a carefully selected set
of “comparison companies.” The crucial question in our study is not,
What did the good-to-great companies share in common? Rather, the cru-
cial question is, What did the good-to-great companies share in common
that distinguished them from the comparison companies? Think of it this
way: Suppose you wanted to study what makes gold medal winners in the
Olympic Games. If you only studied the gold medal winners by them-
selves, you'd find that they all had coaches. But if you looked at the athletes that made the Olympic team, but never won a medal, you'd find that they also had coaches! The key question is, What systematically distinguishes gold medal winners from those who never won a medal?

We selected two sets of comparison companies. The first set consisted of "direct comparisons"—companies that were in the same industry as the good-to-great companies with the same opportunities and similar resources at the time of transition, but that showed no leap from good to great. (See Appendix 1.B for details of our selection process.) The second consisted of "unsustained comparisons"—companies that made a short-term shift from good to great but failed to maintain the trajectory—to address the question of sustainability. (See Appendix 1.C.) In all, this gave us a total study set of twenty-eight companies: eleven good-to-great companies, eleven direct comparisons, and six unsustained comparisons.

THE ENTIRE STUDY SET

<table>
<thead>
<tr>
<th>Good-to-Great Companies</th>
<th>Direct Comparisons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbott</td>
<td>Upjohn</td>
</tr>
<tr>
<td>Circuit City</td>
<td>Silo</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>Great Western</td>
</tr>
<tr>
<td>Gillette</td>
<td>Warner-Lambert</td>
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<tr>
<td>Kimberly-Clark</td>
<td>Scott Paper</td>
</tr>
<tr>
<td>Kroger</td>
<td>A&amp;P</td>
</tr>
<tr>
<td>Nucor</td>
<td>Bethlehem Steel</td>
</tr>
<tr>
<td>Philip Morris</td>
<td>R. J. Reynolds</td>
</tr>
<tr>
<td>Pitney Bowes</td>
<td>Addressograph</td>
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<tr>
<td>Walgreens</td>
<td>Eckerd</td>
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<tr>
<td>Wells Fargo</td>
<td>Bank of America</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Unsustained Comparisons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burroughs</td>
</tr>
<tr>
<td>Chrysler</td>
</tr>
<tr>
<td>Harris</td>
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<tr>
<td>Hasbro</td>
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<tr>
<td>Rubbermaid</td>
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<td>Teledyne</td>
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Phase 3: Inside the Black Box

We then turned our attention to a deep analysis of each case. We collected all articles published on the twenty-eight companies, dating back fifty years or more. We systematically coded all the material into categories, such as strategy, technology, leadership, and so forth. Then we interviewed most of the good-to-great executives who held key positions of responsibility during the transition era. We also initiated a wide range of qualitative and quantitative analyses, looking at everything from acquisitions to executive compensation, from business strategy to corporate culture, from layoffs to leadership style, from financial ratios to management turnover. When all was said and done, the total project consumed 10.5 people years of effort. We read and systematically coded nearly 6,000 articles, generated more than 2,000 pages of interview transcripts, and created 384 million bytes of computer data. (See Appendix 1.D for a detailed list of all our analyses and activities.)

We came to think of our research effort as akin to looking inside a black box. Each step along the way was like installing another lightbulb to shed light on the inner workings of the good-to-great process.

Great Results

With data in hand, we began a series of weekly research-team debates. For each of the twenty-eight companies, members of the research team and I would systematically read all the articles, analyses, interviews, and the research coding. I would make a presentation to the team on that specific company, drawing potential conclusions and asking questions. Then we would debate, disagree, pound on tables, raise our voices, pause and
reflect, debate some more, pause and think, discuss, resolve, question, and
debate yet again about "what it all means."

It is important to understand that we developed all of the concepts in
this book by making empirical deductions directly from the data. We
did not begin our project with a theory to test or prove. We sought to
build a theory from the ground up, derived directly from the evidence.

The core of our method was a systematic process of contrasting the
good-to-great examples to the comparisons, always asking, "What's differ-
ent?"

We also made particular note of "dogs that did not bark." In the Sher-
lock Holmes classic "The Adventure of Silver Blaze," Holmes identified
the curious incident of the dog in the nighttime as the key clue. It turns
out that the dog did nothing in the nighttime and that, according to
Holmes, was the curious incident, which led him to the conclusion that
the prime suspect must have been someone who knew the dog well.

In our study, what we didn't find—dogs that we might have expected to
bark but didn't—turned out to be some of the best clues to the inner work-
ings of good to great. When we stepped inside the black box and turned
on the lightbulbs, we were frequently just as astonished at what we did not
see as what we did. For example:

- Larger-than-life, celebrity leaders who ride in from the outside are
  negatively correlated with taking a company from good to great. Ten
  of eleven good-to-great CEOs came from inside the company,
  whereas the comparison companies tried outside CEOs six times
  more often.
- We found no systematic pattern linking specific forms of executive
  compensation to the process of going from good to great. The idea
  that the structure of executive compensation is a key driver in corpo-
  rate performance is simply not supported by the data.
- Strategy per se did not separate the good-to-great companies from the
  comparison companies. Both sets of companies had well-defined
  strategies, and there is no evidence that the good-to-great companies
  spent more time on long-range strategic planning than the compar-
  ison companies.

- The good-to-great companies did not focus principally on what to do
to become great; they focused equally on what not to do and what to
  stop doing.
- Technology and technology-driven change has virtually nothing to do
  with igniting a transformation from good to great. Technology can
  accelerate a transformation, but technology cannot cause a transfor-
  mation.
- Mergers and acquisitions play virtually no role in igniting a transfor-
  mation from good to great; two big mediocrities joined together never
  make one great company.
- The good-to-great companies paid scant attention to managing
  change, motivating people, or creating alignment. Under the right
  conditions, the problems of commitment, alignment, motivation, and
  change largely melt away.
- The good-to-great companies had no name, tag line, launch event, or
  program to signify their transformations. Indeed, some reported being
  unaware of the magnitude of the transformation at the time; only
  later, in retrospect, did it become clear. Yes, they produced a truly re-
  volutionary leap in results, but not by a revolutionary process.
- The good-to-great companies were not, by and large, in great indus-
  tries, and some were in terrible industries. In no case do we have a
  company that just happened to be sitting on the nose cone of a rocket
  when it took off. Greatness is not a function of circumstance. Great-
  ness, it turns out, is largely a matter of conscious choice.

Phase 4: Chaos to Concept

I've tried to come up with a simple way to convey what was required to go
from all the data, analyses, debates, and "dogs that did not bark" to the
final findings in this book. The best answer I can give is that it was an iter-
ative process of looping back and forth, developing ideas and testing them
against the data, revising the ideas, building a framework, seeing it break
under the weight of evidence, and rebuilding it yet again. That process
was repeated over and over, until everything hung together in a coherent
framework of concepts. We all have a strength or two in life, and I suppose
mine is the ability to take a lump of unorganized information, see pat-
terns, and extract order from the mess—to go from chaos to concept.

That said, however, I wish to underscore again that the concepts in the
final framework are not my "opinions." While I cannot extract my own
psychology and biases entirely from the research, each finding in the final framework met a rigorous standard before the research team would deem it significant. Every primary concept in the final framework showed up as a change variable in 100 percent of the good-to-great companies and in less than 30 percent of the comparison companies during the pivotal years. Any insight that failed this test did not make it into the book as a chapter-level concept.

Here, then, is an overview of the framework of concepts and a preview of what’s to come in the rest of the book. (See the diagram below.) Think of the transformation as a process of buildup followed by breakthrough, broken into three broad stages: disciplined people, disciplined thought, and disciplined action. Within each of these three stages, there are two key concepts, shown in the framework and described below. Wrapping around this entire framework is a concept we came to call the flywheel, which captures the gestalt of the entire process of going from good to great.

**Level 5 Leadership.** We were surprised, shocked really, to discover the type of leadership required for turning a good company into a great one. Compared to high-profile leaders with big personalities who make headlines and become celebrities, the good-to-great leaders seem to have come from Mars. Self-effacing, quiet, reserved, even shy—these leaders are a paradoxical blend of personal humility and professional will. They are more like Lincoln and Socrates than Patton or Caesar.

**First Who . . . Then What.** We expected that good-to-great leaders would begin by setting a new vision and strategy. We found instead that they first got the right people on the bus, the wrong people off the bus, and the right people in the right seats—and then they figured out where to drive it. The old adage “People are your most important asset” turns out to be wrong. People are not your most important asset. The right people are.

**Confront the Brutal Facts (Yet Never Lose Faith).** We learned that a former prisoner of war had more to teach us about what it takes to find a path to greatness than most books on corporate strategy. Every good-to-great company embraced what we came to call the Stockdale Paradox: You must maintain unwavering faith that you can and will prevail in the end, regardless of the difficulties, AND at the same time have the discipline to confront the most brutal facts of your current reality, whatever they might be.

**The Hedgehog Concept (Simplicity within the Three Circles).** To go from good to great requires transcending the curse of competence. Just because something is your core business—just because you’ve been doing it for years or perhaps even decades—does not necessarily mean you can be the best in the world at it. And if you cannot be the best in the world at your core business, then your core business absolutely cannot form the basis of a great company. It must be replaced with a simple concept that reflects deep understanding of three intersecting circles.

**A Culture of Discipline.** All companies have a culture, some companies have discipline, but few companies have a culture of discipline. When you have disciplined people, you don’t need hierarchy. When you have disciplined thought, you don’t need bureaucracy. When you have disciplined action, you don’t need excessive controls. When you combine a culture of discipline with an ethic of entrepreneurship, you get the magical alchemy of great performance.

**Technology Accelerators.** Good-to-great companies think differently about the role of technology. They never use technology as the primary means of igniting a transformation. Yet, paradoxically, they are pioneers in the application of carefully selected technologies. We learned that
technology by itself is never a primary, root cause of either greatness or decline.

The Flywheel and the Doom Loop. Those who launch revolutions, dramatic change programs, and wrenching restructurings will almost certainly fail to make the leap from good to great. No matter how dramatic the end result, the good-to-great transformations never happened in one fell swoop. There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond.

From Good to Great to Built to Last. In an ironic twist, I now see Good to Great not as a sequel to Built to Last, but as more of a prequel. This book is about how to turn a good organization into one that produces sustained great results. Built to Last is about how you take a company with great results and turn it into an enduring great company of iconic stature. To make that final shift requires core values and a purpose beyond just making money combined with the key dynamic of preserve the core / stimulate progress.

\[
\begin{array}{ccc}
\text{Good to} & \text{Sustained} & \text{Built to} \\
\text{Great} & \text{Great} & \text{Enduring} \\
\text{Concepts} & \text{Results} & \text{Concepts} \\
& \text{Company} \\
\end{array}
\]

If you are already a student of Built to Last, please set aside your questions about the precise links between the two studies as you embark upon the findings in Good to Great. In the last chapter, I return to this question and link the two studies together.

THE TIMELESS "PHYSICS" OF GOOD TO GREAT

I had just finished presenting my research to a set of Internet executives gathered at a conference, when a hand shot up. "Will your findings continue to apply in the new economy? Don’t we need to throw out all the old ideas and start from scratch?" It’s a legitimate question, as we do live in a time of dramatic change, and it comes up so often that I’d like to dispense with it right up front, before heading into the meat of the book.

Yes, the world is changing, and will continue to do so. But that does not mean we should stop the search for timeless principles. Think of it this way: While the practices of engineering continually evolve and change, the laws of physics remain relatively fixed. I like to think of our work as a search for timeless principles—the enduring physics of great organizations—that will remain true and relevant no matter how the world changes around us. Yes, the specific application will change (the engineering), but certain immutable laws of organized human performance (the physics) will endure.

The truth is, there’s nothing new about being in a new economy. Those who faced the invention of electricity, the telephone, the automobile, the radio, or the transistor—did they feel it was any less of a new economy than we feel today? And in each rendition of the new economy, the best leaders have adhered to certain basic principles, with rigor and discipline.

Some people will point out that the scale and pace of change is greater today than anytime in the past. Perhaps. Even so, some of the companies in our good-to-great study faced rates of change that rival anything in the new economy. For example, during the early 1980s, the banking industry was completely transformed in about three years, as the full weight of deregulation came crashing down. It was certainly a new economy for the banking industry! Yet Wells Fargo applied every single finding in this book to produce great results, right smack in the middle of the fast-paced change triggered by deregulation.

As you immerse yourself in the coming chapters, keep one key point in mind: This book is not about the old economy. Nor is it about the new economy. It is not even about the companies you’re reading about or even about business per se. It is ultimately about one thing: the timeless principles of good to great. It’s about how you take a good organization and turn it into one that produces sustained great results, using whatever definition of results best applies to your organization.

This might come as a surprise, but I don’t primarily think of my work as about the study of business, nor do I see this as fundamentally a business book. Rather, I see my work as about discovering what creates enduring great organizations of any type. I’m curious to understand the
fundamental differences between great and good, between excellent and mediocre. I just happen to use corporations as a means of getting inside the black box. I do this because publicly traded corporations, unlike other types of organizations, have two huge advantages for research: a widely agreed upon definition of results (so we can rigorously select a study set) and a plethora of easily accessible data.

That good is the enemy of great is not just a business problem. It is a human problem. If we have cracked the code on the question of good to great, we should have something of value to any type of organization. Good schools might become great schools. Good newspapers might become great newspapers. Good churches might become great churches. Good government agencies might become great agencies. And good companies might become great companies.

So, I invite you to join me on an intellectual adventure to discover what it takes to turn good into great. I also encourage you to question and challenge what you learn. As one of my favorite professors once said, “The best students are those who never quite believe their professors.” True enough. But he also said, “One ought not to reject the data merely because one does not like what the data implies.” I offer everything herein for your thoughtful consideration, not blind acceptance. You’re the judge and jury. Let the evidence speak.

In 1971, a seemingly ordinary man named Darwin E. Smith became chief executive of Kimberly-Clark, a stodgy old paper company whose stock had fallen 36 percent behind the general market over the previous twenty years.

Smith, the company’s mild-mannered in-house lawyer, wasn’t so sure the board had made the right choice—a feeling further reinforced when a director pulled Smith aside and reminded him that he lacked some of the qualifications for the position. But CEO he was, and CEO he remained for twenty years.

What a twenty years it was. In that period, Smith created a stunning transformation, turning Kimberly-Clark into the leading paper-based consumer products company in the world. Under his stewardship, Kimberly-Clark generated cumulative stock returns 4.1 times the general market, handily beating its direct rivals Scott Paper and Procter & Gamble.