

NATIONAL BESTSELLER

Why Some Companies  
Make the Leap...  
and Others Don't

**GOOD TO**  
**GREAT**

**JIM COLLINS**

Coauthor of the bestselling  
***BUILT TO LAST***

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**G O O D T O G R E A T**

ALSO BY JIM COLLINS

*Built to Last*

*(with Jerry I. Porras)*

*This book is dedicated to the Chimps.*

*I love you all, each and every one.*



**MEMBERS OF THE GOOD-TO-GREAT RESEARCH TEAM  
ASSEMBLED FOR TEAM MEETING, JANUARY 2000**

*First row:* Vicki Mosur Osgood, Alyson Sinclair, Stefanie A. Judd, Christine Jones

*Second row:* Eric Hagen, Duane C. Duffy, Paul Weissman, Scott Jones, Weijia (Eve) Li

*Third row:* Nicholas M. Osgood, Jenni Cooper, Leigh Wilbanks, Anthony J. Chirikos

*Fourth row:* Brian J. Bagley, Jim Collins, Brian C. Larsen, Peter Van Genderen, Lane Hornung

*Not pictured:* Scott Cederberg, Morten T. Hansen, Amber L. Young

*Photo credit:* JIM COLLINS COLLECTION.

## ACKNOWLEDGMENTS

To say this book is “by Jim Collins” overstates the case. Without the significant contributions made by other people, this book would certainly not exist.

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### Members of the Research Team for *Good to Great*

<i>Brian J. Bagley</i>	<i>Lane Hornung</i>	<i>Vicki Mosur Osgood</i>
<i>Scott Cederberg</i>	<i>Christine Jones</i>	<i>Alyson Sinclair</i>
<i>Anthony J. Chirikos</i>	<i>Scott Jones</i>	<i>Peter Van Genderen</i>
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<i>Morten T. Hansen</i>	<i>Nicholas M. Osgood</i>	

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## P R E F A C E

**A**s I was finishing this manuscript, I went for a run up a steep, rocky trail in Eldorado Springs Canyon, just south of my home in Boulder, Colorado. I had stopped on top at one of my favorite sitting places with a view of the high country still covered in its winter coat of snow, when an odd question popped into my mind: How much would someone have to pay me *not* to publish *Good to Great*?

It was an interesting thought experiment, given that I'd just spent the previous five years working on the research project and writing this book. Not that there isn't *some* number that might entice me to bury it, but by the time I crossed the hundred-million-dollar threshold, it was time to head back down the trail. Even that much couldn't convince me to abandon the project. I am a teacher at heart. As such, it is impossible for me to imagine not sharing what we've learned with students around the world. And it is in the spirit of learning and teaching that I bring forth this work.

After many months of hiding away like a hermit in what I call monk mode, I would very much enjoy hearing from people about what works for them and what does not. I hope you will find much of value in these pages and will commit to applying what you learn to whatever you do, if not to your company, then to your social sector work, and if not there, then at least to your own life.

—Jim Collins  
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Boulder, Colorado  
March 27, 2001

**G O O D T O G R E A T**

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## GOOD IS THE ENEMY OF GREAT

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

—BERYL MARKHAM,  
*West with the Night*<sup>1</sup>

**G**ood 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.

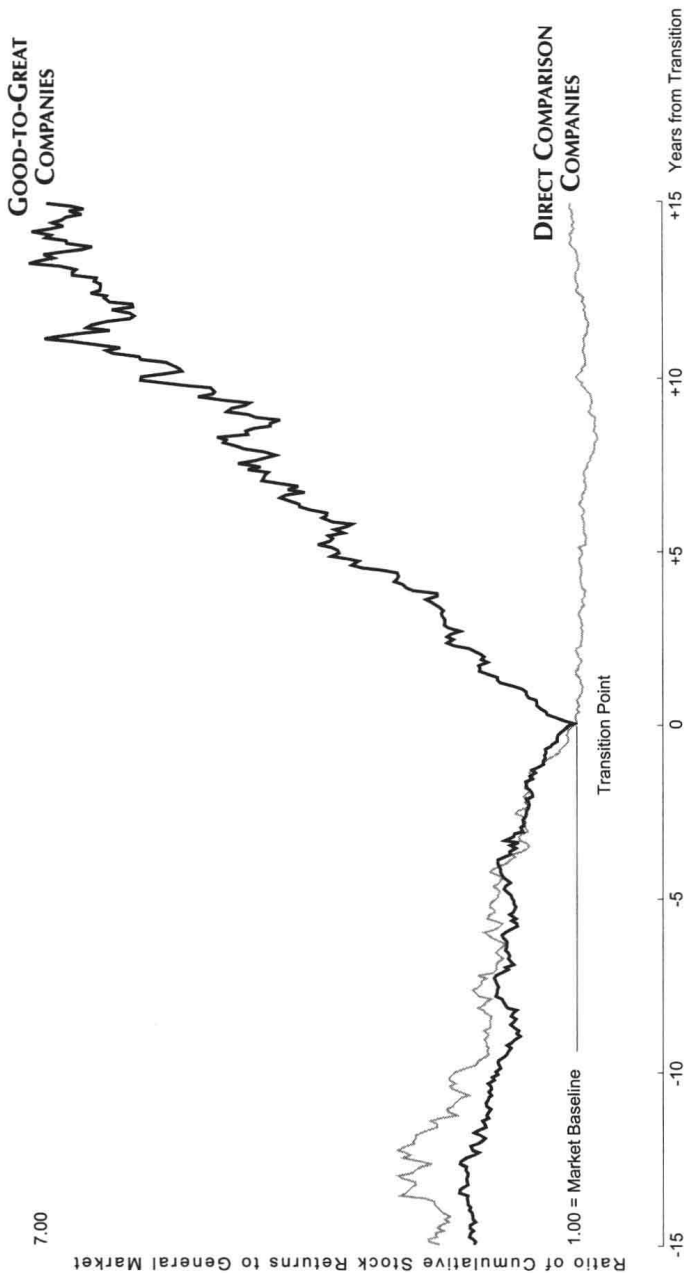
This point became piercingly clear to me in 1996, when I was having dinner with a group of thought leaders gathered for a discussion about organizational performance. Bill Meehan, the managing director of the San Francisco office of McKinsey & Company, leaned over and casually confided, "You know, Jim, 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-

# THE GOOD-TO-GREAT STUDY



Shows average ratio, each company set to 1.00 at transition date.

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.

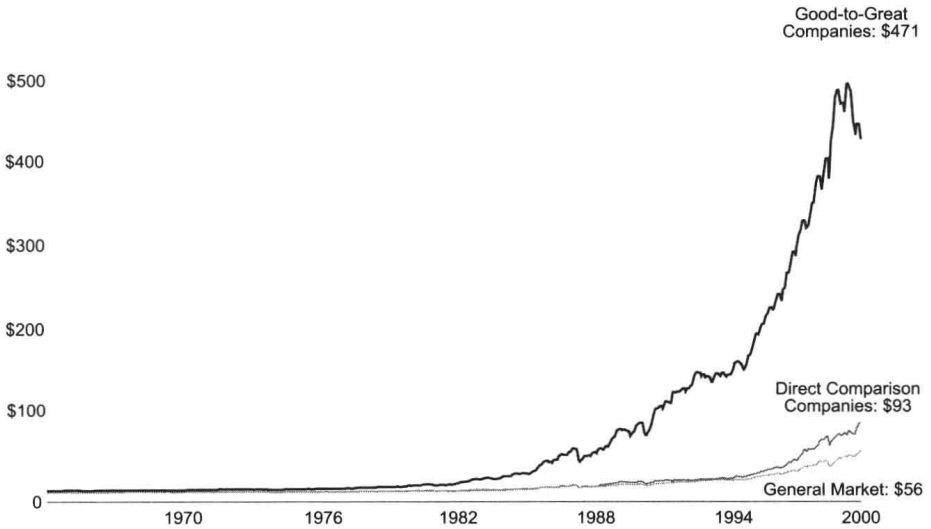
The good-to-great examples that made the final cut into the study attained extraordinary results, averaging cumulative stock returns 6.9 times the general market in the fifteen years following their transition points.<sup>2</sup> To put that in perspective, General Electric (considered by many to be 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.<sup>3</sup> 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.<sup>4</sup>

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.



**Cumulative Stock Returns of \$1 Invested,  
1965 – 2000**

**Notes:**

1. \$1 divided evenly across companies in each set, January 1, 1965.
2. Each company held at market rate of return, until transition date.
3. Cumulative value of each fund shown as of January 1, 2000.
4. Dividends reinvested, adjusted for all stock splits.

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 compa-

\*Calculations of stock returns used throughout this book reflect the total cumulative return to an investor, dividends reinvested and adjusted for stock splits. The “general stock market” (often referred to as simply “the market”) reflects the totality of stocks traded on the New York Exchange, American Stock Exchange, and NASDAQ. See the notes to chapter 1 for details on data sources and calculations.