Built to Last: Successful Habits of Visionary Companies

By James C. Collins and Jerry I Porras, HarperCollins Publishers, New York, NY (1994)

The authors sought to identify the practices that differentiate stellar companies from the good or average ones. They methodically and objectively researched both visionary companies and comparison companies (similar ones founded close to the same time) over a variety of product and service industries, and discovered consistent patterns.

What qualities define a visionary company?

- Premier in its industry
- Widely admired by businesspeople
- Has made indelible imprint on the world
- Has had multiple generations of CEOs
- Has endured multiple product/service life cycles
- Over 50 years old

Visionary companies are not the only successful or enduring ones in their industry -- they simply outperform all the rest. Stock returns over 75 years for visionary companies outperformed those of other successful companies in comparable industries by a factor of 6, and outperformed the general market by a factor of 15.

Myths and Truths about Visionary Companies

Myth 1:	Great companies start with great ideas.
Truth 1:	Visionary companies are actually less likely to have started with a great idea.
Myth 2:	Visionary companies require charismatic, visionary leaders.
Truth 2:	Charismatic, visionary leaders often are detrimental to long-term success; too much attention gets placed on individual leadership instead of on establishing an enduring institution.
Myth 3:	Visionary companies put profits first.
Truth 3:	Profits are only one of a set of priorities -- usually not the top priority.
Myth 4:	Visionary companies share common core values.
Truth 4:	Core values of visionary companies can be radically different
Myth 5:	The only constant is change.
Truth 5:	A visionary company preserves its core ideology.
Myth 6:	Blue-chip companies play it safe.
Truth 6:	They often bet the farm.
Myth 7:	Visionary companies are great places to work.
Truth 7:	Only if you fit the core ideology very closely.

Myth 8:	The best moves are made by brilliant, complex strategic planning.
Truth 8:	Accidents -- trial and error -- are the origin of most big successes.
Myth 9:	Companies should hire CEOs from the outside to stimulate change.
Truth 9:	Home-grown management is a key factor for long-term success.
Myth 10:	Top companies focus on beating the competition.
Truth 10:	They focus on beating themselves.
Myth 11:	You have to choose between mutually exclusive items.
Truth 11:	Visionary companies figure out how to have both.
Myth 12:	Companies become visionary through vision statements.
Truth 12:	Vision statements are a very small part of the whole process.

Visionary companies don't just tell time, they build clocks. Like the framers of the U.S. Constitution, their leaders seek to build an enterprise that will last well beyond their tenure. The leaders spend less time trying to be product visionaries or charismatic leaders, and more time focusing on being organizational visionaries.

Genius of the And (No Tyranny of the Or): Visionary companies figure out how to have both of what appear to be mutually exclusive items. Examples:

- purpose beyond profit AND pragmatic pursuit of profit
- fixed core ideology AND constant progress
- investment for the long haul AND short-term performance
- tight culture AND ability to change and adapt

More than Profits: Core Ideology

Profitability is to companies what oxygen, food, and water are for the body: necessary for existence, but not the reason for living. Less-successful companies often focus too exclusively on profitability, and often fail to develop & reinforce a core ideology. Visionary companies constantly reiterate and reinforce their core beliefs. Examples of core values:

Merck	Preserve and improve human life
Sony	"To be where engineers can feel joy of innovation, to elevate Japan's culture, and to apply advanced technology to the life of the general public.
Ford	People first, products second, profits third.
HP	Provide finest electronic equipment which makes a contribution to society.
Johnson & Johnson	Product users first, employees second, management third, communities fourth, and stockholders last (unchanged since 1943)
Boeing	Pioneering aviation
Motorola	Superior products and services, fair prices,adequate profit, reasonable shareholder return
Philip Morris	Passionate about cigarettes

Preserve the Core AND Stimulate Progress

Visionary companies keep their core beliefs sacred, but the manifestations of those beliefs are subject to change. Example: Wal*Mart could do away with greeters, but would still find ways to "exceed customer expectations".

Visionary companies institutionalize both their core beliefs and their drive for progress. Examples include Disney University, HP's Promote from Within policy, Procter & Gamble's internal brand competition, 3M's "spend 15% of your time on any project you want", 3M's renewal rule (25% of division sales should come from products introduced in the past 5 years).

Big, Hairy, Audacious Goals (BHAGs)

Like the moon mission of the 1960s, a BHAG is a clear, compelling, focusing, and stimulating goal (not just a statement). Visionary companies define BHAGs (always consistent with the core ideology), achieve them, then define new BHAGs. Examples:

Boeing	Every new plane model a risky venture, pushing technology to the limit
Philip Morris	When its market share was only 10%: "Become the GM of the tobacco industry
Ford	When one of 30 automakers: "Build the motor car for the multitudes
Sony	Just after World War II: "Change the image of Japanese products around the world
Citibank in the 1890s	Become a great national bank
Citibank in 1915	Become the most powerful world financial institution
Citibank in the 1960s	Perform every useful financial service, anywhere in the world

BHAGs appear more audacious to outsiders than to insiders, who believe they can achieve.

Cult-like Cultures

Cultures of visionary companies are binary: either you fit or you don't. The core ideology is so constantly reinforced that you have to buy in fully or you're ousted. Visionary companies tend to:

- Hold ideology fervently
- Indoctrinate its employees
- Ensure a tight fit between the employee and the ideology
- Carry an attitude of elitism

Examples: Nordstrom, IBM, Disney, Procter & Gamble, Marriott

Try a Lot of Stuff and Keep What Works

Success usually comes from lots of experimentation. Try lots of variations; keep what works, and fix or discard what doesn't. As in Darwinism, it's survival of the fittest. However, the variations should be intentional and not just random chance.

Many visionary companies actively promote experimentation. Examples: 3M, Wal*Mart, Johnson & Johnson, Motorola, HP.

Home-Grown Management

Visionary companies plan carefully for CEO succession -- often many years before the change -- and rarely hire CEOs from outside. Lesser companies often rely on a single leader, then scramble for a "savior" (usually an outsider unfamiliar with the culture) when the leader (or his policy) fails.

Good Enough Never Is

Visionary companies institutionalize policies that create discomfort, prevent complacency, and stimulate change and improvement before the external world demands it. Examples:

Merck	Yield market share as products become commodities
Motorola	Cut off mature products that are still selling well
Boeing	Eyes of the Enemy: if we were them, how would we attack Boeing?
Wal*Mart	"Beat Yesterday" ledger book
HP	Pay as you go -- no debt allowed (contrary to finance textbook recommendations)

Visionary companies also demand planning for the long term while still meeting short-term sales goals. They tend to be earlier adopters of new technologies, and continue to build even during tough times.

The End of the Beginning

Keeping everyone in the company aligned with the core ideology requires constant work. You never will reach a point where you get to stop and rest. For best results, use lots of tactics that reinforce each other to keep a consistent message delivered to employees and the world.

Epilogue

The good news: it's all basic stuff within the reach of every manager, and can be applied throughout a company or even simply in an individual department.

The bad news: it's hard work that never ends, and there are no short-cuts.