



# Built To Last

Successful Habits of Visionary Companies



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## About the Authors



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Jerry Porras

Jerry Porras is a brilliant speaker and talented teacher. The co-author of **Built to Last: Successful Habits of Visionary Companies**, one of *Forbes'* 20 most influential business books, he is also the Lane Professor of Organizational Behavior and Change, Emeritus, at *Stanford University's Graduate School of Business*. With lecturer David Bradford, some 30 years ago he developed the highly successful MBA class *Interpersonal Dynamics*, designed to lead students through the process of understanding personal style and improving the way they relate to others. Visit his website at: <http://www.jerryporras.com>

## The Big Idea

**Built to Last** is about enduringly, great organizations known as *visionary companies* that have prospered over long periods of time through multiple product life cycles and several generations of leadership. The authors present the results of six years of intensive, qualitative research on what makes winning companies exceptional and different including their practices and habits. The seven timeless principles of visionary companies include: *Be clock-builders, not time-tellers; embrace the "and", reject the "or"; more than profits; walk the talk; preserve the core ideology while stimulating progress; never-ending process; and build the vision.*

## Background

Collins and Porras present the results of a six-year research project at the Stanford University Graduate School of Business using a comparative research model that traces the performance of eighteen visionary companies and their comparison companies. The authors present the master blueprint for building organizations that will prosper long beyond the 21<sup>st</sup> century.

The visionary companies including their comparison companies are as follows:

Visionary Company	Comparison Company
3M	Norton
American Express	Wells Fargo
Boeing	McDonnell Douglas
Citicorp	Chase Manhattan

Visionary Company	Comparison Company
Ford	GM
General Electric	Westinghouse
Hewlett Packard	Texas Instruments
IBM	Burroughs
Johnson & Johnson	Bristol Myers Squibb
Marriott	Howard Johnson
Merck	Pfizer
Motorola	Zenith
Nordstrom	Melville
Philip Morris	RJR Nabisco
Procter & Gamble	Colgate
Sony	Kenwood
Wal-Mart	Ames
Walt Disney	Columbia

## ■ The Seven Timeless Principles of Visionary Companies

### The First Principle: Be Clock Builders, Not Time-Tellers.

Visionary companies are not borne out of great ideas or charismatic leaders - myths surrounding traditional business school education, popular thinking and time-telling companies. Instead, clock builders concentrate on strengthening the organization one, resolute step at a time like a ticking clock while their leaders are focused on designing an enduring institution rather than on building themselves into larger than life individual, high-profile, charismatic leaders.

#### **Creating and building visionary companies do not require great ideas.**

Visionary company Hewlett Packard's founders, Bill Hewlett and Dave Packard first decided to start a company and figure out later what they would make and sell. Hence, their first products were a telescope clock drive, automatic urinal flushers, etc.

This was the same with Sony. When Masaru Ibuka founded his company in August 1945, he had no specific product idea. It was only after organizing his company that Ibuka and his first seven employees had a brainstorming session to decide what products to sell.

Sam Walton also started without a great idea. He went into business with only the desire to work for himself plus a lot of passion about retailing. Thus, he began with a single Ben Franklin five and dime store in a small town in Arkansas.

J. Willard Marriott wanted to do business but had no clear idea of what business to be in. Procter and Gamble was a simple soap and candle maker.

Merck started as an importer of chemicals from Germany.

Over time, these organizations made a transition from designing and selling products to designing the organization by creating an environment conducive to the creation of great products.

**A high profile, charismatic leadership does not cause a visionary company.**

Visionary companies like 3M, P & G, Sony, Boeing, Hewlett-Packard and Merck did not have high-profile charismatic leaders. If a company has one, then fine, but if not, then that company fits along with the rest of the aforementioned visionary organizations.

3M's William McKnight has been described as soft-spoken, a gentleman, good listener, humble, modest, unobtrusive, quiet, thoughtful and serious. Messrs. Procter and Gamble were stiff, prim, proper, reserved, and even deadpan. Boeing's CEO Bill Allen was shy with an infrequent smile. Sony's Masaru Ibuka was reserved, thoughtful and introspective. George W. Merck was a role model of restraint. All did not have a charismatic leadership style. Yet, they were highly respected and persistent leaders when it came to building the organization.

### The Second Principle: Embrace the *And*, Reject the *Or*.

Visionary companies have the unique capability to manage well two extreme, dichotomous paradoxes. For example, winning companies seek to do very well in the short-term *and* very well in the long-term. Others embrace the tension between profit *and* mission beyond profit.

In one company general address, David Packard made it clear that the Hewlett-Packard Company must be managed "first and foremost to make a contribution to society" and the main task is "to design, develop and manufacture the finest electronic (equipment) for the advance of science and welfare of humanity. On the other hand, he also made it clear that because profit enables Hewlett-Packard to pursue broader aims, "anyone who cannot accept profit as one of the most important objectives of the company has no place either now or in the future on the management team of the company".

### The Third Principle: Visionary Companies are More Than Profits

While visionary companies pursue making money, this is but one of the cluster of objectives and is not the overriding objective. Visionary companies are guided by a core ideology, core values and a sense of purpose and mission beyond just making money. Ironically, in so doing, they make more money than the purely profit-driven comparison companies.

In 1935, long before values statements became a corporate fashion, George Merck II stated, "(We) are workers in industry who are genuinely inspired by the ideals of advancement of medical service and service to humanity". Fifty-six years later in

1991, Merck's Chief Executive P. Roy Vagelos said, "Above all, let us remember that our business success means victory against disease and help to mankind".

It is no surprise that Merck is today's largest American pharmaceutical company in Japan. Right after World War II, Merck brought streptomycin to Japan to eliminate tuberculosis that was killing thousands of Japanese. doing, Merck did not make any money. After all, rising from World War II, many could not afford the product but Merck viewed itself as "in the business of preserving and improving human life". Vagelos pointed out, that "the long-term consequences of such actions are not always clear but somehow they always pay off".

Not all visionary companies began with a well-articulated core ideology. Many of them initially concentrated on kicking their company off the ground and the core ideology became clear only as the company evolved.

### The Fourth Principle: Visionary Companies Walk the Talk

Role-modeling the core ideology and values is as important, if not more important than the content or writing of the ideology.

Visionary companies observe the following when institutionalizing their core ideology:

1. Routinely, publicly espouse and articulate the core ideology.
2. Visionary companies make the ideology pervasive throughout the company by indoctrinating and creating cultures around the ideology; by choosing leadership and management that role-model the ideology; and by seeking alignment of functional goals, strategies and organization design around the core ideology.

Visionary companies understand that a core ideology is the summation of the organization's essential and enduring tenets that can never be compromised for financial gains or short-term objectives. This core ideology includes the organization's core values and its sense of purpose that is the fundamental reason for existence beyond just making money.

### The Fifth Principle: Preserve the Core Ideology While Stimulating Progress

Visionary companies are prepared to change everything about itself except its core ideology. The only sacred cow in visionary companies is its basic philosophy of doing business.

Visionary companies understand what core ideology is in contrast to its execution that may change over time and can include policies, procedures and practices. For example, Nordstrom's "Service to the customer above else" is a permanent part of its core ideology while piano players at the lobby can change; 3M's "Respect for individual initiative" is a core ideology while the 15% rule where employees can spend 15% of their time on profits of their choosing can change; Wal-Mart's "Exceed

customer expectation” is a core ideology while customer greeters at the front door is a non-core practice that may change.

Core ideology and relentless desire for progress in a visionary company works hand in hand. Following are ways to preserve the core ideology and stimulate progress at the same time:

1. *Develop a clear and compelling BHAG (Big, hairy, audacious goal) that requires little or no explanation.* A BHAG is a goal, not a statement. A BHAG must be bold and exciting that in its own right continues to stimulate progress. Finally, a BHAG should be consistent with a company's core ideology.

Example: BHAG

<b>Visionary Company:</b> <b>General Electric</b>	<b>Comparison Company:</b> <b>Westinghouse</b>
Become the #1 or #2 in every market we serve and revolutionize this company to have the speed and agility of a small enterprise.	Total Quality Market Leadership Technology Driven Global Focused Growth Diversified

Once companies reach their BHAGs, they are likely to stall or drift. A preventive measure is to have follow-on BHAGs.

2. *Create cult-like cultures.* Visionary companies have no middle ground. Only those who fit with the visionary company's core ideology find the organization a great place to work for. Visionary companies are so clear about what they stand for, what they want to achieve and who they want to achieve it with that they simply do not have room for those unwilling or unable to fit in with their culture and exacting standards.

Visionary companies strongly exhibit the following cult-like behaviors.

Example: Nordstrom

Fervently held ideology: Outstanding customer service

Indoctrination: Use of heroic stories, chanting affirmations and cheers

Tightness of fit: People tend to fit well with the company and its ideology or not fit at all. For example, at Nordstrom, employees that fit the Nordstrom way receive lots of positive reinforcement like increases in pay, awards and recognition while those who do not fit, get negative reinforcement like black marks and penalties.

Elitism create a sense of belonging to something special/superior. E.g. At Nordstrom, best performers become part of Pacesetter or an All-Star.

3. *Try a lot of stuff and keep what works.* Visionary companies make their best moves by experimentation, trial and error, opportunism and accident. The resulting success is a product of an enduring process, not exactly by detailed strategic planning.

For example, 3M understood that big things evolve from little things. It did not select innovations based strictly on market size. Operating on a simple principle that “no market, no end product is so small as to be scorned”, it allowed a lot of experimentation. Yet, it was quick to nurture the little things that can grow into big things.

#### **What Visionary Companies do to Encourage Evolutionary Programs**

1. Give it a try and quick. Seize the opportunity, experiment and try something new. If one thing fails, try another.
  2. Accept that mistakes will be made. A visionary company tolerates mistakes but not sins.
  3. Take small steps. It is easier to tolerate failed experiments when they are just experiments, not massive corporate failures.
  4. Give people the room they need. Visionary companies decentralize more and provide greater operational autonomy.
  5. Build ticking clock mechanisms. Put in place mechanisms and policies that will stimulate and reinforce evolutionary behavior.
  6. Never forget to preserve the core while stimulating evolutionary progress.
4. *Build homegrown management.* Visionary companies believe in promoting from within, bringing to senior levels only those who have spent significant time steeped in the core ideology of the company. It is part of preserving the core ideology while debunking the myth that significant change and fresh ideas cannot come from insiders.

The guiding principle is to invest in management development processes and long-range succession planning to effect a smooth transition from one generation to the next. The key is to develop and promote insiders who are highly capable of stimulating healthy change and progress while preserving the core.

5. *Good enough never is.* Visionary companies are harsh and terribly demanding of themselves. They focus primarily on beating themselves. They follow a continuous process of relentless, self-improvement with the aim of doing better and better, forever into the future to stimulate progress.

Visionary companies have powerful mechanisms that obliterate complacency and comfort while creating discomfort to stimulate change and improvement before the external environment demands it. For example, Marriott Hotel has a short list of mechanisms to stimulate improvement like:

Guest service index (GSI) reports  
Employee annual performance reviews  
Employee incentive bonuses (based on service, quality, cleanliness and cost-effectiveness)  
Employee profit-sharing program  
Management and employee development programs  
Full-scale corporate learning center  
Phantom shoppers or inspectors that pose as customers. Good service is rewarded with an a \$10 bill by the phantom shopper while bad service is penalized with an "Oops card" and an order for employee retraining

### The Sixth Principle: Recognize That Being a Visionary Company Is a Never-Ending Process

Here are five guideposts to being a visionary company:

1. Paint the whole picture a visionary company is like a great work of art. It is all the pieces that work together to create an overall effect that leads to enduring greatness. It is in the detail.
2. Sweat the small stuff Pay attention to little things and the nitty-gritty details of the company and the business. It is the little things that make a big impression and send powerful signals.
3. Cluster, don't shotgun Put in place pieces and details that reinforce each other to deliver a powerful punch.
4. Swim in your current even if you swim against the tide Be true to the company's self-defined ideology even if it flies in the face of conventional business practices.
5. Obliterate misalignments Identify and correct misalignments that push the company away from its core ideology or impede progress.
6. Keep the universal requirements while investing in new methods A company must have a core ideology to become visionary. It must have an unrelenting drive for progress and finally, it must be well designed as an organization to preserve the core and stimulate progress.

### The Seventh Principle: Build the Vision

Visionary companies build their vision based on core ideology and an envisioned future. To preserve the vision means that these organizations create organizational and strategic alignment to preserve the core ideology and stimulate progress towards the envisioned future.

#### Elements of Core Ideology

1. Core values – a visionary company's timeless guiding principle that has intrinsic value and importance to those in the organization. E.g. Disney's core value is imagination and wholesomeness driven by the company's

intrinsic belief and not by the external and current market, competition or management fad.

2. Core purpose this means the organization's fundamental, deeper reason for being beyond just making money. E.g. Disney To make people happy. organization yet, without a final statement.

### **Must Understand About Core Ideology and Core Purpose**

1. It is not created or set but discovered by looking inside.
2. It must be honest and authentic.
3. It must guide and inspire, not differentiate.
4. It must be meaningful and inspiring to people inside the organization, even if it is not exciting to outsiders.
5. Core ideology cannot be crammed down into people's throats. They must have a natural predisposition to hold them.
6. Core values and purpose are not the results of a word-smithing exercise. A company can have a strong core ideology permeating within the organization yet, without a final statement.
7. Core ideology is not synonymous to core competence. Core competence refers to the organization's capabilities where the company is particularly good at while core ideology captures why the company exists.

### **Elements of Envisioned Future**

1. Vision level Big, Hairy, Audacious Goal (BHAG) A vision level goal that takes ten to thirty years to complete.
2. Vivid Description a vibrant, engaging and specific description of what it would be like to achieve the BHAG. The key is to translate the vision from words into pictures, thus, creating images in the minds of people.

### **Ways to Articulate the Vision Level BHAG**

1. Develop a quantitative or qualitative BHAG
  - Wal-Mart in 1990: Become a \$125 billion company by the year 2000. (quantitative BHAG)
  - Boeing in 1950: Become the dominant player in commercial aircraft and bring the world into the jet age (qualitative BHAG)
2. Use a David versus Goliath approach through a beat the common enemy BHAG
  - Philip Morris in the 1950s: Knock off RJR as the number one tobacco company in the world
  - Nike in the 1960s: Crush Adidas
3. Use a role-model approach by looking at a leader
  - Stanford University in the 1940s: Become the Harvard of the West
4. Use internal transformation, effective in old or large organizations
  - General Electric in the 1980s: Become the number one or two in every market we serve and revolutionize this company to have the strengths of a big company combined with the leanness and agility of a small company.