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BUILT TO LAST

SUCCESSFUL HABITS OF VISIONARY COMPANIES

JIM COLLINS

(Bestselling author of GOOD TO GREAT)

JERRY I. PORRAS

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BUILT

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Successful Habits

of Visionary Companies

James C. Col ins

Jerry I. Porras

Dedication

Dedication

To Joanne and Charlene

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Introduction to the Paperback Edition

Introduction to the Paperback Edition On March 14, 1994, we shipped the nal manuscript for Built to Last to our publisher. Like al authors, we had hopes and dreams for the book, but never dared al ow these hopes to become predictions. We knew that for every successful book, ten or twenty equal y

good (or bet er) works languish in obscurity. Two years later, as we write this introduction to the paperback edition, we nd ourselves somewhat astonished by the success of the book: more than forty printings worldwide, translation into thirteen languages, and best-sel er status in North America, Japan, South America, and parts of Europe.

There are many ways to measure the success of a book, but for us the quality of our readership stands at the top of the list. Fueled initial y by favorable coverage in a wide range of magazines and journals, the book quickly found an audience and ignited a word-of-mouth chain reaction among thoughtful readers. And that is a key word: readers. What is the true price of a book? Not the fteen-to twenty- ve-dol ar cover price. For a busy person, the cover price pales in comparison to the hours required to read and digest a book, especial y a research-based, idea-driven work like ours. Most people don’t read the books they buy, or at least not al of them.

We’ve been pleasantly surprised not only by how many people have bought the book, but by how many have actual y read it. From CEOs and senior executives to aspiring entrepreneurs, leaders of nonpro ts, investors, journalists, and managers early in their careers, busy people have invested in Built to Last with their most precious resource—time.

We at ribute this widespread readership to four primary factors.

First, people feel inspired by the very notion of building an enduring, great company. We’ve met executives from al over the world who aspire to create something bigger and more lasting than

world who aspire to create something bigger and more lasting than themselves—an ongoing institution rooted in a set of timeless core values, that exists for a purpose beyond just making money, and that stands the test of time by virtue of the ability to continual y renew itself from within.

We’ve seen this motivation not only in those who shoulder the responsibility of stewardship in large organizations, but also—and perhaps especial y—in entrepreneurs and leaders of smal to midsized companies. The examples set by people like David Packard, George Merck, Walt Disney, Masaru Ibuka, Paul Galvin, and Wil iam McKnight—the Thomas Jef ersons and James

Madisons of the business world—set a high standard of values and performance that many feel compel ed to try to live up to. Packard and his peers did not begin as corporate giants; they began as entrepreneurs and smal business people. From there they built smal , cash-strapped enterprises into some of the world's most enduring and successful corporations. One executive of a smal entrepreneurial company said, "To know that they did it gave us confidence and a model to fol ow."

Second, thoughtful people crave time-tested fundamentals; they're tired of the "fad of the year" boom-and-bust cycle of management thinking. Yes, the world changes—and continues to change at an accelerated pace—but that does not mean that we should abandon the quest for fundamental concepts that stand the test of time. On the contrary, we need them more than ever! Certainly, we always need to search for new ideas and solutions—invention and discovery move humankind forward—but the biggest problems facing organizations today stem not from a dearth of new management ideas (we're inundated with them), but primarily from a lack of understanding the basic fundamentals and, most problematic, a failure to consistently apply those fundamentals.

Most executives would contribute far more to their organizations by going back to basics rather than it ing o on yet another short-lived love a air with the next at ractive, wel -packaged management fad.

Third, executives at companies in transition nd the concepts in

Third, executives at companies in transition nd the concepts in Built to Last to be helpful in bringing about productive change without destroying the bedrock foundation of a great company (or, in some cases, building that

bedrock for the rst time). Contrary to popular wisdom, the proper rst response to a changing world is not to ask, “How should we change?” but rather to ask, “What do we stand for and why do we exist?” This should never change. And then feel free to change everything else. Put another way, visionary companies distinguish their timeless core values and enduring purpose (which should never change) from their operating practices and business strategies (which should be changing constantly in response to a changing world). This distinction has proven to be profoundly useful to organizations amid dramatic transformation—

defense companies like Rockwel facing the end of the Cold War, utilities like the Southern Company facing accelerating deregulation, tobacco companies like UST facing an increasingly hostile world, family companies like Cargil facing the rst generation of nonfamily leadership, and companies with visionary founders like Advanced Micro Devices and Microsoft facing the need to transcend dependence on the founder.

Figure I.A

Continuity and Change in Visionary Companies

Even the visionary companies studied in Built to Last need to continual y remind themselves of the crucial distinction between core and noncore, between what should never change and what should be open for change, between what is truly sacred and what is not. Hewlet -Packard executives, for example, speak frequently about this crucial distinction, helping HP people see that “change”

in operating practices, cultural norms, and business strategies does not mean losing the spirit of the HP Way. Comparing the company to a gyroscope, HP’s 1995 annual report emphasizes this key idea:

“Gyroscopes have been used for almost a century to guide ships, airplanes, and satel ites. A gyroscope does this by combining the stability of an inner wheel with the free movement of a pivoting frame. In an analogous way, HP’s enduring character guides the company as we both lead and adapt to the evolution of technology and markets.” Johnson & Johnson used the concept to chal enge its entire organization structure and revamp its

processes while preserving the core ideals embodied in the Credo. 3M sold o entire chunks of its company that o ered lit le opportunity for innovation—a dramatic move that surprised the business press—in order to refocus on its enduring purpose of solving unsolved problems innovatively. Indeed, if there is any one “secret” to an enduring great company, it is the ability to manage continuity and change—a discipline that must be consciously practiced, even by the most visionary of companies.

Fourth, there are many visionary companies out there, and they’ve found the book to be a welcome con rmation of their approach to business. The companies in our study represent only a smal slice of the visionary company landscape. Visionary companies come in many packages: large and smal , public and private, high pro le and reclusive, stand-alone companies and subsidiaries. Wel -known companies not in our original study such as Coca-Cola, L.L. Bean, Levi Strauss, McDonald’s, McKinsey, and State Farm almost certainly qualify as visionary companies, and others like Nike—not yet old enough—wil probably enter that league. But there are also a large number of less wel -known visionary companies, many of them

number of less wel -known visionary companies, many of them private and somewhat reclusive. Some are older, wel -established companies, such as Cargil , Edward D. Jones, Fannie Mae, Granite Rock, Molex, and Telecare. Others are up-and-coming companies, such as Bonnevil e International, Cypress, GSD&M, Landmark Communications, Manco, MBNA, Taylor Corporation, Sunrise Medical, and WL Gore. The business press tends to rivet our at ention on the Icarus companies—high-pro le rms either on the way up or the way down. We regularly come in contact with a very di erent group of companies—solid, paying at ention to the fundamentals, shunning the limelight, creating jobs, generating wealth, and making a contribution to society. We feel optimistic as we see these companies—and there are a lot of them—make their way in the world.

BUILT TO LAST IN A GLOBAL, MULTICULTURAL WORLD

Given that seventeen of the eighteen visionary companies we studied for Built to Last have their headquarters in the United States, we were unsure how the basic concepts would play in the rest of the world. Since publication we’ve learned that the central concepts in Built to Last apply worldwide,

across cultures and in multicultural environments. Between the two of us, we've traveled to every continent except Antarctica delivering seminars and lectures and working with companies. We've worked in a wide variety of countries with distinct cultures, including Argentina, Australia, Brazil, Chile, Colombia, Denmark, Finland, Germany, Hol and, Israel, Italy, Mexico, New Zealand, the Philippines, Singapore, South Africa, Switzerland, Thailand, and Venezuela.

And, although we have not yet traveled extensively in al parts of Asia, the book has had a strong reception there, with translations in Chinese, Korean, and Japanese.

The aspiration to build an enduring great company is not uniquely American; we've met clock-builders in every culture.

Enlightened business leaders around the globe intuitively understand the importance of timeless core values and a purpose

understand the importance of timeless core values and a purpose beyond just making money. They also exhibit the same relentless drive for progress we found in those who built the American visionary companies. We've seen BHAGs in Brazil, cult-like cultures in Scandinavia, "try a lot of stu and keep what works" strategies in Israel, continuous self-improvement in South Africa. And the best organizations everywhere pay close at ention to consistency and alignment.

The fact that we primarily studied U.S.-based rms for Built to Last re ects our research methodology more than the global corporate landscape (we assembled our list of visionary companies by surveying 700 CEOs of companies based in the United States).

Established and up-and-coming visionary companies exist in many countries —FEMSA in Mexico, Husky in Canada, Odebrecht in Brazil, Sun International in England, Honda in Japan, to name a few. In a new research initiative designed to replicate the Built to Last analysis and systematical y test the ideas in Europe, Jerry (in conjunction with OCC, a European consulting rm) has identi ed eighteen European visionary companies: ABB, BMW, Carrefour, Daimler Benz, Deutsche Bank, Ericsson, Fiat, Glaxo,

ING, L’Oréal, Marks & Spencer, Nestlé, Nokia, Philips, Roche, Shel , Siemens, and Unilever.

We’ve also seen how the concepts apply to multinational or global companies that have many cultures within one organization.

A global visionary company separates operating practices and business strategies (which should vary from country to country) from core values and purpose (which should be universal and enduring within the company, no mat er where it does business). A visionary company exports its core values and purpose to al of its operations in every country, but tailors its practices and strategies to local cultural norms and market conditions. For example, Wal-Mart should export its core value that the customer is number one to al of its operations overseas, but should not necessarily export the Wal-Mart cheer (which is merely a cultural practice to reinforce the core value).

In our advisory work we’ve been able to help multinational

In our advisory work we’ve been able to help multinational companies discover and articulate a unifying, global core ideology.

In one company with operations in twenty-eight countries, most of the executives—a cynical and skeptical group—simply didn’t believe it possible to nd a shared set of core values and a common purpose that would be both global and meaningful. Through an intense process of introspection, beginning with each executive thinking about the core values he or she personal y brings to his or her work, the group did indeed discover and articulate a shared core ideology. They also decided upon speci c implementation steps to create alignment and bring the core to life on a consistent basis in al twenty-eight countries. The executives did not set new core values and purpose; they discovered a core that they already had in common but that had been obscured by misalignments and lack of dialogue. “For the rst time in my fteen years here,” said one executive, “I feel like we have a common identity. It feels good to know that my col eagues halfway around the globe hold the same fundamental ideals and principles, even though they may have very di erent operations and strategies. Diversity is a strength, especial y when rooted in a common understanding of what we

stand for and why we exist. Now we must make sure this permeates the entire institution and lasts over time."

When operating at their best (which they don't always do), enduring, great companies do not abandon their core values and high performance standards when doing business in di erent cultures. As the CEO of a more than one-hundred-year-old, privately-held, multibil ion dol ar visionary company explained: "It may take us longer to get established in a new culture, especial y as we have di culty nding people who t with our value system.

Take China and Russia, for example, where you'l nd rampant corruption and dishonesty. So, we move more slowly, and grow only as fast as we can nd people who wil uphold out standards.

And we're wil ing to forgo business opportunities that would force us to abandon our principles. We're stil here after one hundred years, doubling in size every six or seven years, when most of our competitors from fty years ago don't even exist anymore. Why?

competitors from fty years ago don't even exist anymore. Why?

Because of the discipline to not compromise our standards for the sake of expediency. In everything we do, we take the long view.

Always."

BUILT TO LAST OUTSIDE OF CORPORATIONS

Given that we limited our original research to for-pro t corporations, we did not know at the time how our ndings would appeal to people outside of the corporate world. We've come to understand since publication that, ultimately, this is not a business book, but a book about building enduring, great human institutions o f any type. People in a wide range of noncorporate situations report that they've found the concepts valuable—from for-cause organizations like the American Cancer Society to school districts, col eges, universities, churches, teams, governments, and even families and individuals.

Numerous healthcare organizations, for example, have found the concept of distinguishing their core values from their practices and strategies to be critical to maintaining their sense of social mission while adapting to the dramatic changes and increasing competitiveness of the world around them. A member of the board of trustees at a major university used the same idea to distinguish the timeless core value of intel ectual freedom from the operating practice of academic tenure. “This distinction proved invaluable in helping me to facilitate needed changes in an increasingly archaic tenure system, while not losing sight of a very important core ideal,” he explained.

The concept of “clock building” an organization with a strong cult-like culture that transcends dependence on the original visionary founders has aided a number of social-cause organizations.

One such entity is City Year, a community-service program that inspires hundreds of col ege-age youths to dedicate themselves to a year of communal e ort on projects that improve America’s inner cities—a “domestic Peace Corps.” Like many social-cause organizations, City Year’s roots trace to inspired and visionary

organizations, City Year’s roots trace to inspired and visionary founders with a strong sense of social purpose. Alan Khazei, one of the founders, wanted his missionary zeal and vision to become a characteristic of the organization itself, independent of any individual leader, including himself. He made the shift from being a social visionary to building an organization with an enduring social purpose—the shift from being a time-tel er to being a clock-builder.

Social-cause organizations often begin in response to a speci c problem, much as companies often begin in response to a speci c great idea or timely market opportunity. But, just as any great idea or market opportunity eventual y becomes obsolete, the founding goal of a social-cause organization can be met or become irrelevant.

Looking for a deeper, more enduring purpose that goes beyond the original founding concept therefore becomes vital y important to building a lasting organization.

Conceptual y, we see lit le di erence between for-pro t visionary companies and nonpro t visionary organizations. Both face the need to transcend dependence on any single leader or great idea.

Both depend on a timeless set of core values and an enduring purpose beyond just making money. Both need to change in response to a changing world, while simultaneously preserving their core values and purpose. Both bene t from cult-like cultures and careful at ention to succession planning. Both need mechanisms of forward progress, be they BHAGs (Big Hairy Audacious Goals), experimentation and entrepreneurship, or continuous self-improvement. Both need to create consistent alignment to preserve their core values and purpose and to stimulate progress. Certainly, the structures, strategies, competitive dynamics, and economics vary from for-pro t to nonpro t institutions. But the essence of what it takes to build an enduring, great institution does not vary.

We've also begun to see how the concepts in Built to Last can be applied at the societal/governmental level. Japan and Israel, for example, have consciously tried to cultivate cohesive societies around a strong sense of purpose and core values, mechanisms of alignment, and national BHAGs. As historian Barbara Tuchman observed in her book Practicing History, "With al its problems,

observed in her book Practicing History, "With al its problems, Israel has one commanding advantage: a sense of purpose. Israelis may not have a uence . . or the quiet life. But they have what a uence tends to smother: a motive." This motive does not depend on the presence of a single charismatic visionary leader; it lies deep in the fabric of Israeli society, reinforced by powerful alignment mechanisms like universal military service. As a leading Israeli journalist described, "Unlike most nations, we actual y have an enduring purpose that every Israeli knows: to provide a secure place on Earth for the Jewish people."

In the United States, we have a strong set of national core values, beautiful y articulated in the Declaration of Independence and the Get ysburg Address, but we need to gain bet er understanding of our enduring core purpose. Whereas the vast majority of Israeli citizens could tel you why Israel exists, we doubt we would nd the same cohesiveness in modern-day America. The

majority of American citizens also seem confused about how our timeless core values di er from practices, structures, and strategies. Is no gun control a core value or a practice? Is a rmative action a core value or a strategy? At a national level, we would bene t from rigorously applying the concept of "preserve the core/stimulate progress" to separate core values from practices and strategies so as to bring about productive change while preserving our national ideals.

Final y, and perhaps most intriguing, a signi cant number of people have reported to us that they've found the key concepts useful in their personal and family lives. Many have applied the yin and yang concept of "preserve the core/stimulate progress" to the fundamental human issues of self-identity and self-renewal. "Who am I? What do I stand for? What is my purpose? How do I maintain my sense of Self in this chaotic, unpredictable world?

How do I infuse meaning into my life and work? How do I remain renewed, engaged, and stimulated?" These questions chal enge us at least as much, or perhaps more so, today as ever before. With the demise of the myth of job security, the accelerating pace of change, and the increasing ambiguity and complexity of our world, people who depend on external structures to provide continuity and

who depend on external structures to provide continuity and stability run the very real risk of having their moorings ripped away. The only truly reliable source of stability is a strong inner core and the wil ingness to change and adapt everything except that core. People cannot reliably predict where they are going and how their lives wil unfold, especial y in today's unpredictable world.

Those who built the visionary companies wisely understood that it is bet er to understand who you are than where you are going—for where you are going wil almost certainly change. It is a lesson as relevant to our individual lives as to aspiring visionary companies.

ONGOING LEARNING AND FUTURE WORK

We've learned much since publication, and we have much more to learn. We've learned that time-tel ers can become clock-builders, and we're

learning how to help time-tel ers make the transition.

We've learned that, if anything, we underestimated the importance of alignment, and we're learning much about how to create alignment within organizations. We've learned that purpose—when properly conceived—has a profound e ect upon an organization beyond what core values alone can do, and that organizations should put more e ort into identifying their purpose. We've learned that mergers and acquisitions pose special problems for visionary companies, and we're learning how to help organizations think about mergers and acquisitions within the Built to Last framework. We've learned much about how to apply the ideas across cultures and in noncorporate set ings. We've learned that the enduring great companies of the twenty- rst century wil need to have radical y di erent structures, strategies, practices, and mechanisms than in the twentieth century; yet the fundamental concepts we present in Built to Last wil become, if anything, even more important as a framework within which to design the organization of the future.

We have an inner drive to learn and teach, and that drive does not end with this book; it is only a beginning. We continue our quest to gain new insights, develop new concepts and ideas, and create

gain new insights, develop new concepts and ideas, and create application tools that make a contribution. Jim has set up a learning laboratory in Boulder, Colorado, for ongoing research and work with organizations. Jerry continues to teach and research at the Stanford University Graduate School of Business, where he has created a new course on visionary companies. As part of our ongoing quest, we would enjoy hearing from our readers about their experiences and observations in working with the Built to Last material, or to raise questions, chal enges, and issues that we should consider in our future work. We hope to hear from you.

Jim Col ins

Boulder, CO

Jerry Porras

Stanford, CA

Preface

Preface

We believe every CEO, manager, and entrepreneur in the world should read this book. So should every board member, consultant, investor, journalist, business student, and anyone else interested in the distinguishing characteristics of the world's most enduring and successful corporations. We make this bold claim not because we wrote this book, but because of what these companies have to teach.

We did something in researching and writing this book that, to our knowledge, has never been done before. We took a set of truly exceptional companies that have stood the test of the time—the average founding date being 1897—and studied them from their very beginnings, through al phases of their development to the present day; and we studied them in comparison to another set of good companies that had the same shot in life, but didn't at ain quite the same stature. We looked at them as start-ups. We looked at them as midsize companies. We looked at them as large companies. We looked at them as they negotiated dramatic changes in the world around them—world wars, depressions, revolutionary technologies, cultural upheavals. And throughout we kept asking,

"What makes the truly exceptional companies dif erent from the other companies?"

We wanted to go beyond the incessant barrage of management buzzwords and fads of the day. We set out to discover the timeless management principles that have consistently distinguished outstanding companies. Along the way, we found that many of today's "new" or "innovative" management methods real y aren't new at al . Many of today's buzzwords—employee ownership, empowerment, continuous improvement, TQM, common vision, shared values, and others—are repackaged and updated versions of practices that date back, in some cases, to the 1800s.

practices that date back, in some cases, to the 1800s.

Yet, much of what we found surprised us—even shocked us at times. Widely held myths fel by the dozen. Traditional frameworks buckled and cracked. Midway through the project, we found ourselves disoriented, as evidence ew in the face of many of our own preconceptions and prior “knowledge.” We had to unlearn before we could learn. We had to toss out old frameworks and build new ones, sometimes from the ground up. It took six years.

But it was worth every minute.

As we look back on our ndings, one giant realization towers above al the others: Just about anyone can be a key protagonist in building an extraordinary business institution. The lessons of these companies can be learned and applied by the vast majority of managers at al levels. Gone forever—at least in our eyes—is the debilitating perspective that the trajectory of a company depends on whether it is led by people ordained with rare and mysterious qualities that cannot be learned by others.

We hope you take many things from this book. We hope the hundreds of speci c examples wil stimulate you to immediately take action in your own organization. We hope the concepts and frameworks wil embed themselves in your mind and help guide your thinking. We hope you take away pearls of wisdom that you can pass along to others. But, above al , we hope you take away con dence and inspiration that the lessons herein do not just apply to “other people.” You can learn them. You can apply them. You can build a visionary company.

JCC and JIP

Stanford, California

March 1994

Chapter 1

Chapter 1

The Best of the Best

As I look back on my life's work, I'm probably most proud of having helped to create a company that by virtue of its values, practices, and success has had a tremendous impact on the way companies are managed around the world. And I'm particularly proud that I'm leaving behind an ongoing organization that can live on as a role model long after I'm gone.

WILLIAM R. HEWLETT, COFOUNDER, HEWLETT-PACKARD

COMPANY, 19901

Our commitment must be to continue the vitality of this company—its growth in physical terms and also its growth as an institution—so that this company, this institution, wil last through another 150 years. Indeed, so it wil last through the ages.

JOHN G. SMALE, FORMER CEO, PROCTER & GAMBLE,

CELEBRATING P&G's 150TH BIRTHDAY, 19862

This is not a book about charismatic visionary leaders. It is not about visionary product concepts or visionary market insights. Nor even is it about just having a corporate vision.

This is a book about something far more important, enduring, and substantial. This is a book about visionary companies.

substantial. This is a book about visionary companies.

What is a visionary company? Visionary companies are premier institutions —the crown jewels—in their industries, widely admired by their peers and having a long track record of making a signi cant impact on the world around them. The key point is that a visionary company is an organization—an institution. Al individual leaders, no mat er how charismatic or visionary, eventual y die; and al visionary products and services—al "great ideas"—eventual y become obsolete. Indeed, entire markets can become obsolete and disappear. Yet visionary companies prosper over long periods of time, through multiple product life cycles and multiple generations of active leaders.

Pause for a moment and compose your own mental list of visionary companies; try to think of ve to ten organizations that meet the fol owing criteria:

• Premier institution in its industry

• Widely admired by knowledgeable businesspeople

• Made an indelible imprint on the world in which we live

• Had multiple generations of chief executives

• Been through multiple product (or service) life cycles

• Founded before 1950*

Examine your list of companies. What about them particularly impresses you? Notice any common themes? What might explain their enduring quality and prosperity? How might they be di erent from other companies that had the same opportunities in life, but didn’t at ain the same stature?

In a six-year research project, we set out to identify and systematical y research the historical development of a set of visionary companies, to examine how they di ered from a careful y selected control set of comparison companies, and to thereby discover the underlying factors that account for their extraordinary long-term position. This book presents the ndings of our research

long-term position. This book presents the ndings of our research project and their practical implications.

We wish to be clear right up front: The “comparison companies”

in our study are not dog companies, nor are they entirely unvisionary. Indeed, they are good companies, having survived in most cases as long as the visionary companies and, as you’l see, having outperformed the general stock market. But they don’t quite match up to the overal stature of the visionary companies in our study. In most cases, you can think of the

visionary company as the gold medalist and the comparison company as the silver or bronze medalist.

We chose the term “visionary” companies, rather than just

“successful” or “enduring” companies, to re ect the fact that they have distinguished themselves as a very special and elite breed of institutions. They are more than successful. They are more than enduring. In most cases, they are the best of the best in their industries, and have been that way for decades. Many of them have served as role models—icons, real y—for the practice of management around the world. (Table 1.1 shows the companies in our study. We wish to be clear that the companies in our study are not the only visionary companies in existence. We wil explain in a few pages how we came up with these particular companies.) Yet as extraordinary as they are, the visionary companies do not have perfect, unblemished records. (Examine your own list of visionary companies. We suspect that most if not al of them have taken a serious tumble at least once during their history, probably multiple times.) Walt Disney faced a serious cash flow crisis in 1939

which forced it to go public; later, in the early 1980s, the company nearly ceased to exist as an independent entity as corporate raiders eyed its depressed stock price. Boeing had serious di culties in the mid-1930s, the late 1940s, and again in the early 1970s when it laid o over sixty thousand employees. 3M began life as a failed mine and almost went out of business in the early 1900s. Hewlet -

Packard faced severe cutbacks in 1945; in 1990, it watched its stock drop to a price below book value. Sony had repeated product failures during its rst ve years of life (1945–1950), and in the

failures during its rst ve years of life (1945–1950), and in the 1970s saw its Beta format lose to VHS in the bat le for market dominance in VCRs. Ford posted one of the largest annual losses in American business history ($3.3 bil ion in three years) in the early 1980s before it began an impressive turnaround and long-needed revitalization. Citicorp (founded in 1812, the same year Napoleon marched to Moscow) languished in the late 1800s, during the 1930s Depression, and again in the late 1980s when it struggled

with its global loan portfolio. IBM was nearly bankrupt in 1914, then again in 1921, and is having trouble again in the early 1990s.

Table 1.1

The Companies in our Research Study

Comparison

Visionary Company

Company

3M

Norton

American Express

Wel s Fargo

McDonnel

Boeing

Douglas

Chase

Citicorp

Manhat an

Ford

GM

General Electric

Westinghouse

Texas

Hewlet -Packard

Instruments

IBM

Burroughs

Bristol-Myers

Johnson & Johnson

Squibb

Howard

Marriot

Marriot

Johnson

Merck

Pfizer

Motorola

Zenith

Nordstrom

Melvil e

Philip Morris

RJR Nabisco

Procter & Gamble

Colgate

Sony

Kenwood

Wal-Mart

Ames

Walt Disney

Columbia

Indeed, al of the visionary companies in our study faced setbacks and made mistakes at some point during their lives, and some are experiencing di culty as we write this book. Yet—and this is a key point—visionary companies display a remarkable resiliency, an ability to bounce back from adversity.

As a result, visionary companies at ain extraordinary long-term performance. Suppose you made equal $1 investments in a general-market stock fund, a comparison company stock fund, and a visionary company stock fund on January 1, 1926.3 If you reinvested al dividends and made appropriate adjustments for when the companies became available on the Stock Exchange (we held companies at general market rates until they appeared on the market), your $1 in the general market fund would have grown to $415 on December 31, 1990—not bad. Your $1 invested in the group of comparison companies would have grown to $955—more than twice the general market. But your $1 in the visionary companies stock fund would have grown to $6,356—over six times the comparison fund and over fteen times the general market.

(Chart 1.A shows cumulative stock returns from 1926 to 1990; Chart 1.B shows the ratio of the visionary companies and comparison companies to the general market over the same period.)

period.)

But the visionary companies have done more than just generate long-term nancial returns; they have woven themselves into the very fabric of society. Imagine how di erent the world would have looked and felt without Scotch tape or 3M Post-it notepads, the Ford Model T and Mustang, the Boeing 707 and 747, Tide detergent and Ivory soap, American Express cards and travelers checks, ATM

machines pioneered on a wide scale by Citicorp, Johnson &

Johnson Band-Aids and Tylenol, General Electric light bulbs and appliances, Hewlet -Packard calculators and laser printers, IBM 360

computers and Selectric typewriters, Marriot Hotels, anticholesterol Mevacor from Merck, Motorola cel ular phones and paging devices, Nordstrom's impact on customer service standards, and Sony Trinitron TVs and portable Walkmans. Think of how many kids (and adults) grew up with Disneyland, Mickey Mouse, Donald Duck, and Snow White. Picture an urban freeway without Marlboro cowboy bil boards or rural America without Wal-Mart stores. For bet er or worse, these companies have made an indelible imprint on the world around them.

Chart 1.A

Cumulative Stock Returns of $1 Invested January 1, 1926 — December 31, 1990

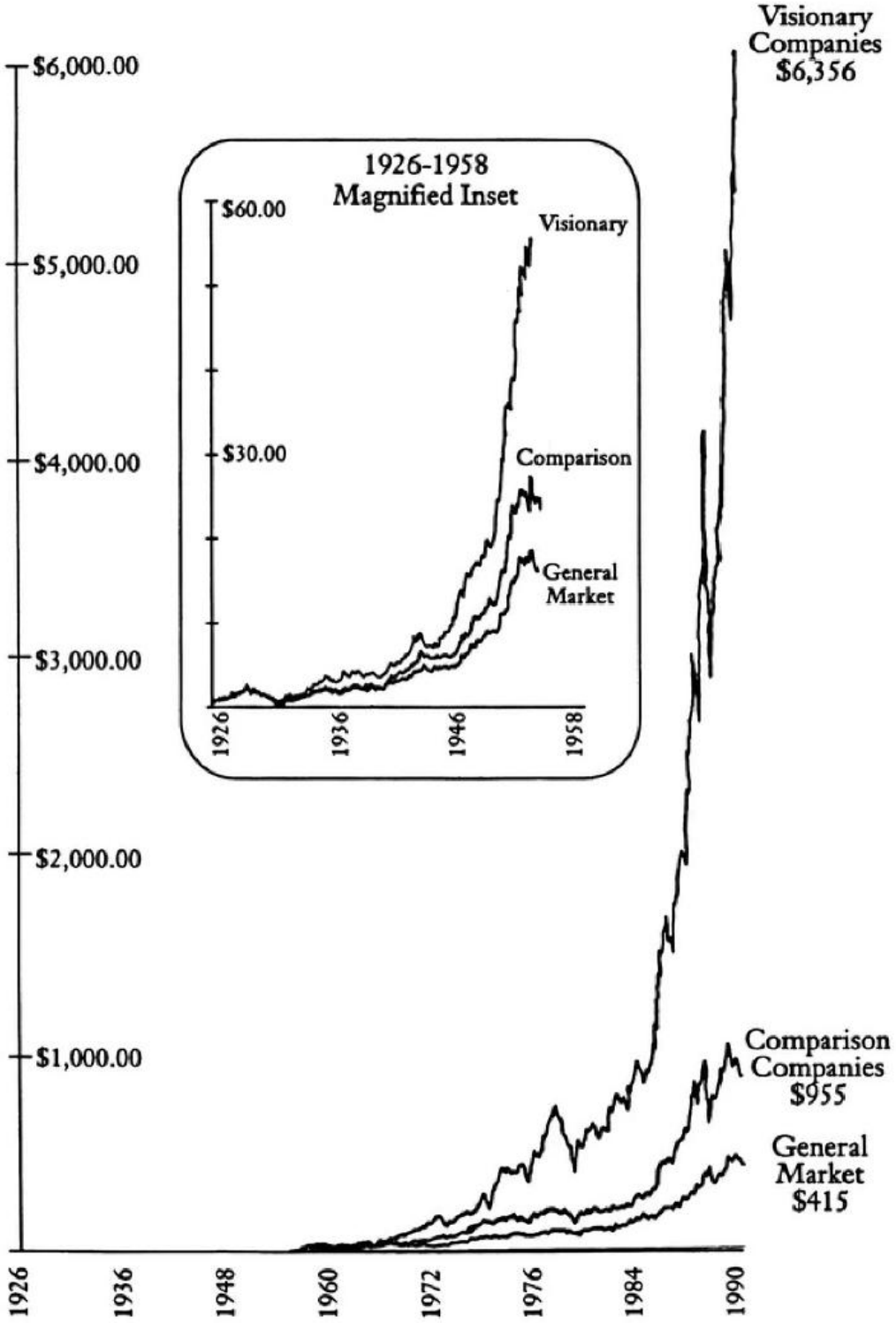
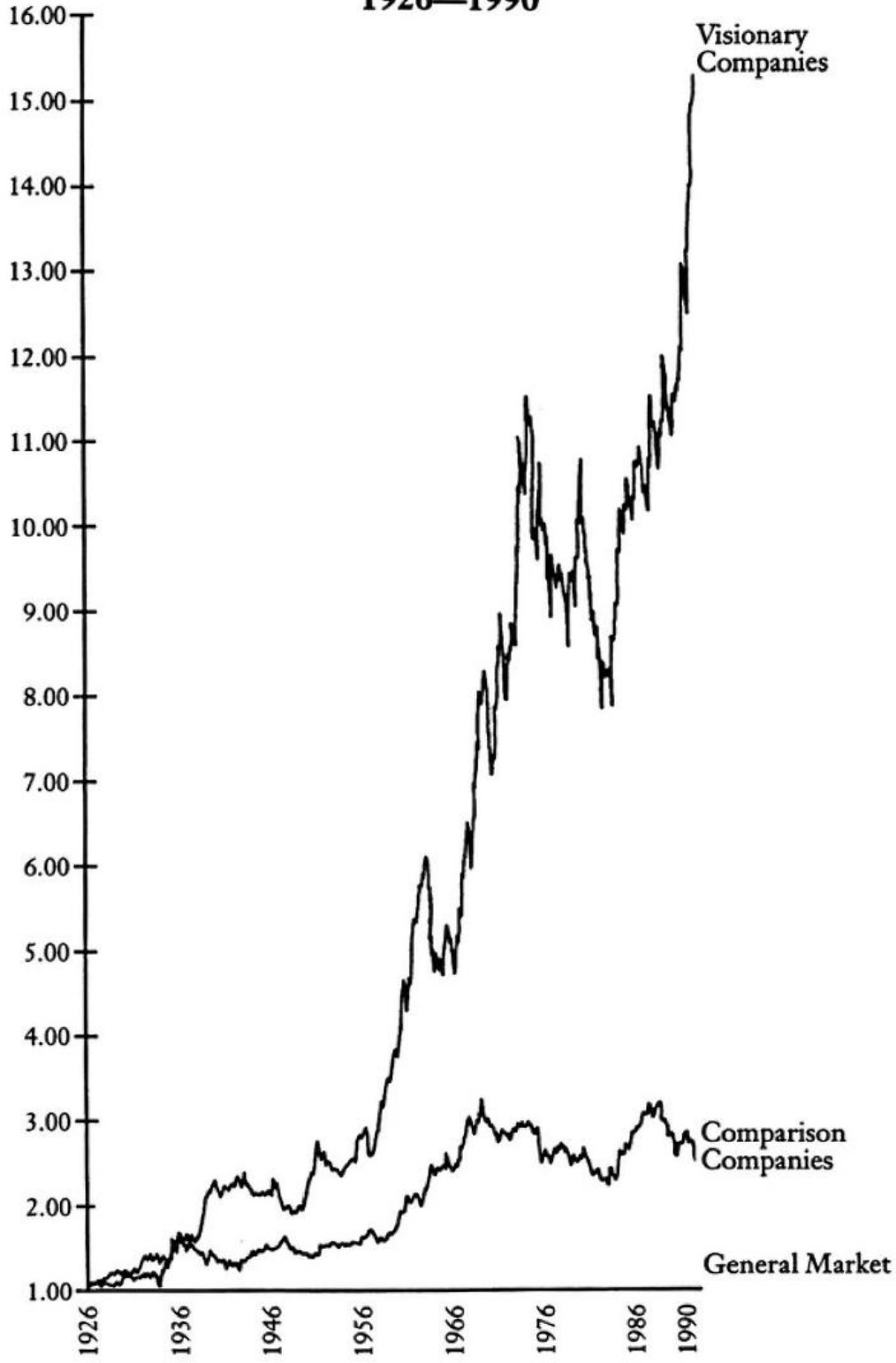


Chart 1.B

Ratio of Cumulative Stock Returns to General Market 1926—1990



The exciting thing, however, is to gure out why these companies

The exciting thing, however, is to gure out why these companies have separated themselves into the special category that we consider highly visionary. How did they begin? How did they manage the various di cult stages of corporate evolution from tiny start-ups to global institutions? And, once they became large, what characteristics did they share in common that distinguished them from other large companies? What can we learn from their development that might prove useful to people who would like to create, build, and maintain such companies? We invite you on a journey through the rest of this book to discover answers to these questions.

We dedicate the second half of this chapter to describing our research process. Then, beginning in Chapter 2, we present our ndings, which include a number of surprising and counterintuitive discoveries. As a preview of our ndings, we present here a dozen common myths that were shat ered during the course of our research.

TWELVE SHATTERED MYTHS

Myth 1: It takes a great idea to start a great company.

Reality: Starting a company with a “great idea” might be a bad idea. Few of the visionary companies began life with a great idea. In fact, some began life without any speci c idea and a few even began with outright failures.

Furthermore, regardless of the founding concept, the visionary companies were signi cantly less likely to have early entrepreneurial success than the comparison companies in our study. Like the parable of the tortoise and the hare, visionary companies often get o to a slow start, but win the long race.

Myth 2: Visionary companies require great and charismatic visionary leaders.

Reality: A charismatic visionary leader is absolutely not required for a visionary company and, in fact, can be detrimental to

for a visionary company and, in fact, can be detrimental to a company’s long-term prospects. Some of the most signi cant CEOs in the history of

visionary companies did not t the model of the high-pro le, charismatic leader—

indeed, some explicitly shied away from that model. Like the founders of the United States at the Constitutional Convention, they concentrated more on architecting an enduring institution than on being a great individual leader. They sought to be clock builders, not time tel ers.

And they have been more this way than CEOs at the comparison companies.

Myth 3: The most successful companies exist rst and foremost to maximize profits.

Reality: Contrary to business school doctrine, “maximizing shareholder wealth” or “pro t maximization” has not been the dominant driving force or primary objective through the history of the visionary companies. Visionary companies pursue a cluster of objectives, of which making money is only one—and not necessarily the primary one.

Yes, they seek pro ts, but they’re equal y guided by a core ideology—core values and sense of purpose beyond just making money. Yet, paradoxical y, the visionary companies make more money than the more purely profit-driven comparison companies.

Myth 4: Visionary companies share a common subset of “correct”

core values.

Reality: There is no “right” set of core values for being a visionary company. Indeed, two companies can have radical y di erent ideologies, yet both be visionary. Core values in a visionary company don’t even have to be “enlightened” or

“humanistic,” although they often are. The crucial variable is not the content of a company’s ideology, but how deeply it believes its ideology and how consistently it lives, breathes, and expresses it in al that it does.

Visionary companies do not ask, “What should we value?”

They ask, “What do we actual y value deep down to our

They ask, “What do we actual y value deep down to our toes?”

Myth 5: The only constant is change.

Reality: A visionary company almost religiously preserves its core ideology —changing it seldom, if ever. Core values in a visionary company form a rock-solid foundation and do not drift with the trends and fashions of the day; in some cases, the core values have remained intact for wel over one hundred years. And the basic purpose of a visionary company—its reason for being—can serve as a guiding beacon for centuries, like an enduring star on the horizon.

Yet, while keeping their core ideologies tightly xed, visionary companies display a powerful drive for progress that enables them to change and adapt without compromising their cherished core ideals.

Myth 6: Blue-chip companies play it safe.

Reality: Visionary companies may appear straitlaced and conservative to outsiders, but they’re not afraid to make bold commitments to “Big Hairy Audacious Goals”

(BHAGs). Like climbing a big mountain or going to the moon, a BHAG may be daunting and perhaps risky, but the adventure, excitement, and chal enge of it grabs people in the gut, gets their juices owing, and creates immense forward momentum. Visionary companies have judiciously used BHAGs to stimulate progress and blast past the comparison companies at crucial points in history.

Myth 7: Visionary companies are great places to work, for everyone.

Reality: Only those who “ t” extremely wel with the core ideology and demanding standards of a visionary company wil nd it a great place to work. If you go to work at a visionary company, you wil either t and ourish—

probably couldn’t be happier—or you wil likely be expunged like a virus. It’s binary. There’s no middle ground. It’s almost cult-like. Visionary

companies are so

ground. It’s almost cult-like. Visionary companies are so clear about what they stand for and what they’re trying to achieve that they simply don’t have room for those unwil ing or unable to fit their exacting standards.

Myth 8: Highly successful companies make their best moves by bril iant and complex strategic planning.

Reality: Visionary companies make some of their best moves by experimentation, trial and error, opportunism, and—quite literal y—accident. What looks in retrospect like bril iant foresight and preplanning was often the result of “Let’s just try a lot of stu and keep what works.” In this sense, visionary companies mimic the biological evolution of species. We found the concepts in Charles Darwin’s Origin of Species to be more helpful for replicating the success of certain visionary companies than any textbook on corporate strategic planning.

Myth 9: Companies should hire outside CEOs to stimulate fundamental change.

Reality: In seventeen hundred years of combined life spans across the visionary companies, we found only four individual incidents of going outside for a CEO—and those in only two companies. Home-grown management rules at the visionary companies to a far greater degree than at the comparison companies (by a factor of six). Time and again, they have dashed to bits the conventional wisdom that signi cant change and fresh ideas cannot come from insiders.

Myth 10: The most successful companies focus primarily on beating the competition.

Reality: Visionary companies focus primarily on beating themselves. Success and beating competitors comes to the visionary companies not so much as the end goal, but as a residual result of relentlessly asking the question “How can we improve ourselves to do bet er tomorrow than we did today?” And they have asked this question day in and day

today?” And they have asked this question day in and day out—as a disciplined way of life—in some cases for over 150 years. No mat er how much they achieve—no mat er how far in front of their competitors they pul —they never think they’ve done “good enough.”

Myth 11: You can’t have your cake and eat it too.

Reality: Visionary companies do not brutalize themselves with the

“Tyranny of the OR”—the purely rational view that says you can have either A OR B, but not both. They reject having to make a choice between stability OR progress; cult-like cultures OR individual autonomy; home-grown managers OR fundamental change; conservative practices OR Big Hairy Audacious Goals; making money OR living according to values and purpose. Instead, they embrace the

“Genius of the AND”—the paradoxical view that al ows them to pursue both A AND B at the same time.

Myth 12: Companies become visionary primarily through “vision statements.”

Reality: The visionary companies at ained their stature not so much because they made visionary pronouncements (although they often did make such pronouncements). Nor did they rise to greatness because they wrote one of the vision, values, purpose, mission, or aspiration statements that have become popular in management today (although they wrote such statements more frequently than the comparison companies and decades before it became fashionable). Creating a statement can be a helpful step in building a visionary company, but it is only one of thousands of steps in a never-ending process of expressing the fundamental characteristics we identi ed across the visionary companies.

THE RESEARCH PROJECT

Origins: Who Is the Visionary Leader at 3M?

In 1988, we began to wrestle with the question of corporate

“vision”: Does it actual y exist? If so, what exactly is it? Where does it come from? How do organizations end up doing visionary things?

Vision had received much at ention in the popular press and among management thinkers, yet we felt highly unsatis ed by what we read.

For one thing, the term “vision” had been tossed around by so many people and used in so many di erent ways that it created more confusion than clari cation. Some viewed vision as about having a crystal-bal picture of the future marketplace. Others thought in terms of a technology or product vision, such as the Macintosh computer. Stil others emphasized a vision of the organization—values, purpose, mission, goals, images of an idealized workplace. Talk about a muddled mess! No wonder so many hard-nosed practical businesspeople were highly skeptical of the whole notion of vision; it just seemed so—wel —fuzzy, unclear, and impractical.

Furthermore—and what bothered us most—the image of something cal ed a “visionary leader” (often charismatic and high-pro le) lurked in the background of nearly al discussions and writings about vision. But, we asked ourselves, if “visionary leadership” is so critical to the development of extraordinary organizations, then who is the charismatic visionary leader of 3M?

We didn’t know. Do you? 3M has been a widely admired—almost revered—company for decades, yet few people can even name its current chief executive, or his predecessor, or even his predecessor, and so on.

3M is a company that many would describe as visionary, yet doesn’t seem to have (or have had in its past) an archetypal, high-pro le, charismatic visionary leader. We checked into the history of 3M and learned that it had been founded in 1902. So, even if it had a visionary leader in its past, that person would almost certainly have died a long time ago. (In fact, as of 1994, 3M had ten

have died a long time ago. (In fact, as of 1994, 3M had ten generations of chief executives.) It also became clear that 3M could not possibly trace its success primarily to a visionary product concept, market insight, or lucky

break; no such product or lucky break could create nearly one hundred years of corporate performance.

It occurred to us that 3M represented something beyond visionary leadership, visionary products, visionary market insights, or inspiring vision statements. 3M, we decided, could best be described as a visionary company.

And thus we began the extensive research project on which this book is based. In a nutshel , we had two primary objectives for the research project:

1. To identify the underlying characteristics and dynamics common to highly visionary companies (and that distinguish them from other companies) and to translate these ndings into a useful conceptual framework.

2. To e ectively communicate these ndings and concepts so that they in uence the practice of management and prove bene cial to people who want to help create, build, and maintain visionary companies.

Step 1: What Companies Should We Study?

Stop and think for a minute. Suppose you wanted to create a list of visionary companies to study. No prior list exists in any literature; the concept of a “visionary company” is new and untested. How might you go about creating a list of companies?

We wrestled with this question and concluded that we, as individuals, should not construct the list. We might have biases that would excessively favor one company over another. We might not know the corporate landscape wel enough. We might be partial to California-based or technology-based companies because we’re more familiar with them.

more familiar with them.

To minimize individual bias, therefore, we elected to survey chief executive o cers at leading corporations from a wide range of sizes, industries, types, and geographical locations and ask them to help us create the list of visionary companies to study. We believed that CEOs, given their unique vantage point as practitioners atop leading corporations, would have the most discerning and seasoned judgment in selecting companies. We trusted

CEO input more than input from academics because CEOs are in constant touch with the practical chal enges and realities of building and managing companies. Leading CEOs, we reasoned, would have excel ent working knowledge of the companies in their industry and related industries. We also reasoned that the e ective chief executive keeps close tabs on the companies that his or her company works with and competes against.

In August 1989, we surveyed a careful y selected representative sample of seven hundred CEOs from the fol owing populations:

• Fortune 500 industrial companies

• Fortune 500 service companies

• Inc. 500 private companies

• Inc. 100 public companies.

To ensure a representative sample across industries, we selected CEOs from every industry classi cation in the Fortune 500 listings, both service and industrial (250 from each). The Inc. listings ensured adequate representation from smal er companies, both public and private (we surveyed a representative sample of 200

companies across these two populations). We asked each CEO to nominate up to ve companies that he or she perceived to be

“highly visionary.” We speci cal y asked that the CEOs personal y respond and to not delegate the response to someone else in their organization.

We received a 23.5 percent response rate from the CEOs (165

We received a 23.5 percent response rate from the CEOs (165

cards) with an average of 3.2 companies listed per card. We performed a series of statistical analyses to confirm that we received a representative sample from al target populations.4 In other words, no one group of CEOs dominated the nal survey data; we had statistical y representative input from al parts of the country and from al types and sizes of companies.5

Using the survey data, we created a list of visionary companies to study by identifying the twenty organizations most frequently mentioned by the CEOs. We then eliminated from the list companies founded after 1950; we reasoned that any company founded before 1950 had proven itself to be more than the bene ciary of a single leader or a single great idea. By rigorously applying the pre-1950 criteria, we cul ed the nal list to eighteen visionary companies to study. The youngest companies in our study were founded in 1945 and the oldest was founded in 1812. At the time of our survey, the companies in our study averaged ninety-two years of age, with an average founding date of 1897 and a median founding date of 1902. (See Table 1.2 for founding dates.) Step 2: Avoiding the “Discover Buildings” Trap (A Comparison Group)

We could have simply put the visionary companies o in a corral by themselves, studied them, and asked the question “What common characteristics do we see across these companies?” But there is a fundamental aw in merely pursuing a “common characteristic” analysis.

What would we nd if we just looked for common characteristics? Just to use an extreme example, we would discover that al eighteen of the companies have buildings! That’s right; we would nd a perfect 100 percent correlation between being a visionary company and having buildings. We would also nd a perfect 100 percent correlation between being a visionary company and having desks, and pay systems, and boards of directors, and accounting systems, and—wel , you get the idea. We agree that it

accounting systems, and—wel , you get the idea. We agree that it would be absurd to then conclude that a key factor in being a visionary company is to have buildings. Indeed, al companies have buildings; so discovering that 100 percent of the visionary companies have buildings tel s us nothing valuable.

Table 1.2

Founding Dates

1812 Citicorp

1837 Procter & Gamble

1847 Philip Morris

1850 American Express

1886 Johnson & Johnson

1891 Merck

1892 General Electric

1901 Nordstrom

Median: 1902 3M

1903 Ford

1911 IBM

1915 Boeing

1923 Walt Disney

1927 Marriot

1928 Motorola

1938 Hewlet -Packard

1945 Sony

1945 Wal-Mart

Please don’t take our harping on this point the wrong way. We’re

Please don’t take our harping on this point the wrong way. We’re not trying to belabor an obvious concept that’s as clear and straightforward to you as it is to us. We’re harping on it because the sad fact is that much business research and writing fal s into the

“discover buildings” trap. Suppose you study a group of successful companies and you nd that they emphasize customer focus, or quality improvement, or empowerment; how do you know that you haven’t merely discovered the management practice equivalent of having buildings? How do you know that you’ve discovered something that distinguishes the successful companies from other companies? You don’t know. You can’t know—not unless you have a control set, a comparison group.

The critical question is not “What’s common across a group of companies?” Rather, the critical issues are: “What’s essential y dif erent about these companies? What distinguishes one set of companies from another?” We therefore concluded that we could only reach our research objectives by studying our visionary companies in contrast to other companies that had a similar start in life.

We systematical y and painstakingly selected a comparison company for each visionary company (see Table 1.1 earlier in this chapter for the comparison pairs). We selected the comparison companies using the fol owing criteria:

• Same founding era. In each case, we looked for a comparison company founded in the same era as the visionary company.

The comparison companies in our study had an average founding date of 1892 versus 1897 for the visionary companies.

• Similar founding products and markets. In each case, we looked for a comparison company that pursued similar products, services, and markets in its early days. However, the comparison company need not be in precisely the same industry later in its history; we wanted companies that started in the same place, but didn’t necessarily end up in the same

in the same place, but didn’t necessarily end up in the same place. For example, Motorola (a visionary company) expanded far beyond consumer electronics, whereas Zenith (Motorola’s comparison company) did not; we wanted to see what guided these widely divergent outcomes, even though they had very similar beginnings.

• Fewer mentions in the CEO survey. In each case, we looked for a comparison company that garnered substantial y fewer mentions than the visionary company in the CEO survey. Since we relied heavily on the CEOs in our selection of visionary companies, we wanted to rely on the same input in selecting our comparison set.

• Not a dog company. We didn't want to compare the visionary companies to total failures or poor performers. We believed that a conservative comparison (that is, comparing to other good companies) would give our ultimate ndings much more credibility and value. If we compared the visionary companies to a bunch of abysmal failures, we'd certainly nd di erences, but not helpful di erences. If you compare Olympic championship teams to high school teams, you'd certainly see some di erences, but would those di erences be meaningful? Would they tel you anything valuable? Of course not. But if you compare Olympic gold medal teams with silver or bronze medal teams and nd systematic di erences, then you've got something credible and useful. We wanted to compare gold medal teams to silver and bronze medal teams whenever possible to give real meaning to our findings.

Step 3: History and Evolution

We decided to undertake the daunting task of examining the companies throughout their entire histories. We didn't just ask

"What at ributes do these companies have today?" We primarily asked such questions as "How did these companies get started?

How did they evolve? How did they negotiate the pitfal s of being smal , cash-strapped enterprises? How did they manage the

smal , cash-strapped enterprises? How did they manage the transition from start-up to established corporation? How did they handle transitions from founder to second-generation management?

How did they deal with historical events such as wars and depressions? How did they handle the invention of revolutionary new technologies?"

We pursued this historical analysis for three reasons. First, we wanted to glean insights that would be valuable not only to readers in large

corporations, but also to people in smal to midsize companies. We have practical experience and academic knowledge across the continuum—from entrepreneurship and building smal companies to planned organizational change in large corporations

—and we wanted to create knowledge and tools that would prove useful from both of these perspectives.

Second, and even more important, we believed that only an evolutionary perspective could lead to understanding the fundamental dynamics behind visionary companies. To use an analogy, you can't ful y understand the United States without understanding its history—the Revolutionary War, the ideals and compromises of the Constitutional Convention, the Civil War, the expansion westward, the cataclysmic national Depression of the 1930s, the in uence of Je erson, Lincoln, and Roosevelt, and many other historical factors. In our view, corporations resemble nations in that they re ect the accumulation of past events and the shaping force of underlying genetics that have roots in prior generations.

How could we possibly understand Merck today without examining the origins of its underlying philosophy laid down by George Merck in the 1920s ("Medicine is for the patient; not for the pro ts. The pro ts fol ow")? How could we possibly understand 3M today without examining the fact that it began life nearly bankrupt as a failed mine? How could we possibly understand General Electric under the stewardship of Jack Welch without examining GE's systematic leadership development and selection processes that trace back to the early 1900s? How could we possibly understand Johnson & Johnson's response to the Tylenol poisoning crisis in the 1980s without examining the historical roots

poisoning crisis in the 1980s without examining the historical roots of the J&J Credo (penned in 1943) that guided the company's response to the crisis? We couldn't.

Third, we believed our comparison analysis would be much more powerful from a historical perspective. Just looking at the visionary versus comparison companies in current time would be like merely watching the last thirty seconds of a marathon footrace. Sure, you could see who won the

gold medal, but you wouldn’t understand why he or she had won. To ful y understand the outcome of a race, you have to see the entire race and the events that led up to it—to look at the various runners during their training, during their prerace preparations, during mile one, mile two, mile three, and so on. Similarly, we wanted to look back in time to nd answers to such intriguing questions as:

• How did Motorola successful y move from a humble bat ery repair business into car radios, television, semiconductors, integrated circuits, and cel ular communications, while Zenith

—started at the same time with similar resources—never became a major player in anything other than TVs?

• How did Procter & Gamble continue to thrive 150 years after its founding, while most companies are lucky to survive even 15 years? And how did P&G, which began life substantial y behind rival Colgate, eventual y prevail as the premier institution in its industry?

• How did Hewlet -Packard Company remain healthy and vibrant after Bil Hewlet and Dave Packard stepped aside, while Texas Instruments—once a high- ying darling of Wal Street—nearly self-destructed after Pat Haggarty stepped aside?

• Why did Walt Disney Company become an American icon, surviving and prospering through hostile takeover at empts, while Columbia Pictures slowly lost ground, never became an icon, and eventual y sold out to a Japanese company?

• How did Boeing emerge from obscurity in the commercial

• How did Boeing emerge from obscurity in the commercial aircraft industry and unseat McDonnel Douglas as the premier commercial aircraft company in the world; what did Boeing have in the 1950s that McDonnel Douglas lacked?

UNCOVERING TIMELESS PRINCIPLES Can we legitimately draw conclusions by looking at history? Can we learn anything useful from

looking at what companies did ten, thirty, fty, or one hundred years ago? Certainly the world has changed dramatical y—

and wil continue to change. The speci c methods used by these companies in the past may not directly apply to the future. We acknowledge this. But throughout our research we kept looking for underlying, timeless, fundamental principles and pat erns that might apply across eras. For example, the speci c methods visionary companies use to “preserve the core and stimulate progress” (a key principle discussed throughout the book) wil continue to evolve, but the underlying principle itself is timeless—

equal y valid and essential in 1850 as 1900, 1950, and 2050. Our goal has been to use the long range of corporate history to gain understanding and develop concepts and tools that wil be useful in preparing organizations to be visionary in the twenty- rst century and beyond.

INDEED, if we had to identify one aspect of this book that most separates it from al previous management books, we would point to the fact that we looked at companies throughout their entire life spans and in direct comparison to other companies. This proved to be the key method for cal ing into question powerful y entrenched myths and discerning fundamental principles that apply over long stretches of time and across a wide range of industries.

Step 4: Crates of Data, Months of Coding, and “Tortoise Hunting”

Once we’d selected our companies and decided on the historical and comparison method, we faced another di cult problem: Precisely what should we examine over the history of the companies? Should we examine corporate strategy? Organization structure? Management? Culture? Values? Systems? Product lines?

Industry conditions? Since we didn’t know ahead of time what factors would explain the enduring stature of the visionary companies, we couldn’t pursue a narrow research focus; we had to gather evidence across a wide range of dimensions.

Throughout our research, we kept in mind the image of Charles Darwin taking his ve-year voyage on the H.M.S. Beagle, exploring the Galapagos Islands, and stumbling across huge tortoises (among other species) that varied from island to island. These unexpected observations planted a seed that provoked his thinking during his ride home on the Beagle and during his subsequent work in England. Darwin had the opportunity to gain new insights in part because he had the good fortune of unexpected observations. He wasn't looking speci cal y for variations in tortoises, yet there they were —these big, waddling, weird-looking tortoises wandering around the islands and not t ing neatly into prior assumptions about species.6 We, too, wanted to stumble into a few unexpected, weird-looking tortoises that might provoke our thinking.

Of course, we wanted to be much more systematic than just wandering around aimlessly, hoping to randomly bump into a tortoise or two. To ensure systematic and comprehensive data col ection, we employed a framework based on a technique cal ed

"Organization Stream Analysis" for col ecting and sorting information.7 Using this framework, our research team gathered and tracked nine categories of information over the entire history of each company. (See Table A.1 in Appendix 3.) These categories encompassed virtual y al aspects of a corporation, including organization, business strategy, products and services, technology,

organization, business strategy, products and services, technology, management, ownership structure, culture, values, policies, and the external environment. As part of this e ort, we systematical y analyzed annual nancial statements back to the year 1915 and monthly stock returns back to the year 1926. In addition, we did an overview of general and business history in the United States from 1800 to 1990, and an overview of each industry represented by the companies in our study.

To gather information for thirty-six separate companies over an average life span of ninety-plus years, we sourced nearly a hundred books and over three thousand individual documents (articles, case studies, archive materials, corporate publications, video footage). As a conservative estimate, we reviewed over sixty thousand pages of material (the actual number is

probably closer to a hundred thousand pages). The documents for this project l ed three shoulder-height le cabinets, four bookshelves, and twenty megabytes of computer storage space for nancial data and analyses. (Table A.2 in Appendix 3 outlines our sources.) Step 5: Harvesting the Fruits of our Labor

Next came the most di cult task of the entire project. We distil ed the nearly overwhelming amount of information (much of it qualitative) down to a few key concepts linked together in a framework—a set of conceptual hooks on which to hang and organize the rich detail and supporting evidence from our research.

We looked for repeating pat erns and sought to identify underlying trends and forces; we aimed to identify those concepts that would explain the historical trajectory of the visionary companies and would provide practical guidance to managers building their companies for the twenty-first century.

The underlying backbone of our ndings comes from comparison analyses. Throughout our work, we kept coming back to the primary question “What separates the visionary companies from the comparison companies over the long course of history?” As you read the book, you’l nd reference to tables in Appendix 3 where

read the book, you’l nd reference to tables in Appendix 3 where we methodical y compared the visionary companies to the comparison companies on a given dimension.

We also combined this analytic comparison process with creative processes. We wanted to break as free as possible from the constraining dogmas of business schools and the popular management press. In particular, we sought to stimulate our thinking with ideas that had nothing, on the surface, to do with business and merged these with observations from our research. We therefore read extensively from nonbusiness disciplines: biology (especial y evolutionary theory), genetics, psychology, social psychology, sociology, philosophy, political science, history, and cultural anthropology.

Step 6: Field Testing and Application in the Real World Throughout the entire research project, we continual y tested our ndings and concepts by

throwing them into the teeth of hard reality via consulting engagements and board of directors responsibilities. At the time of this writing, we have personal y applied frameworks and tools based on our research at over thirty separate organizations, ranging from young companies with less than $10 mil ion in revenue to multibil ion-dol ar Fortune 500

corporations across a wide range of industries, including those in computers, health care, pharmaceuticals, biotechnology, construction, retailing, mail order, sporting goods, electronic instruments, semiconductors, computer software, movie theater chains, environmental engineering, chemicals, and commercial banking. Working with senior management, usual y at the direct request of the CEO, we were able to expose our ideas to some of the most incisive, practical, demanding, and hard-nosed people in business.

This “trial by re” provided a valuable feedback loop that helped us to continual y improve our concepts as we moved through the research. For example, during a working session at a pharmaceutical rm, an executive asked, “Are there ‘right’ and

pharmaceutical rm, an executive asked, “Are there ‘right’ and

‘wrong’ core values? In other words, does the content of core values count the most, or does the authenticity and consistency of core values—whatever the content—count the most? Is there any particular subset of core values that show up across al visionary companies?” We then returned to our research data and systematical y answered these questions (see Chapter 3), thus completing the loop from research to practice and back again (see Figure 1.A). This looping process occurred many times across a wide range of issues during the ve-year period of the research project and contributed greatly to this book.

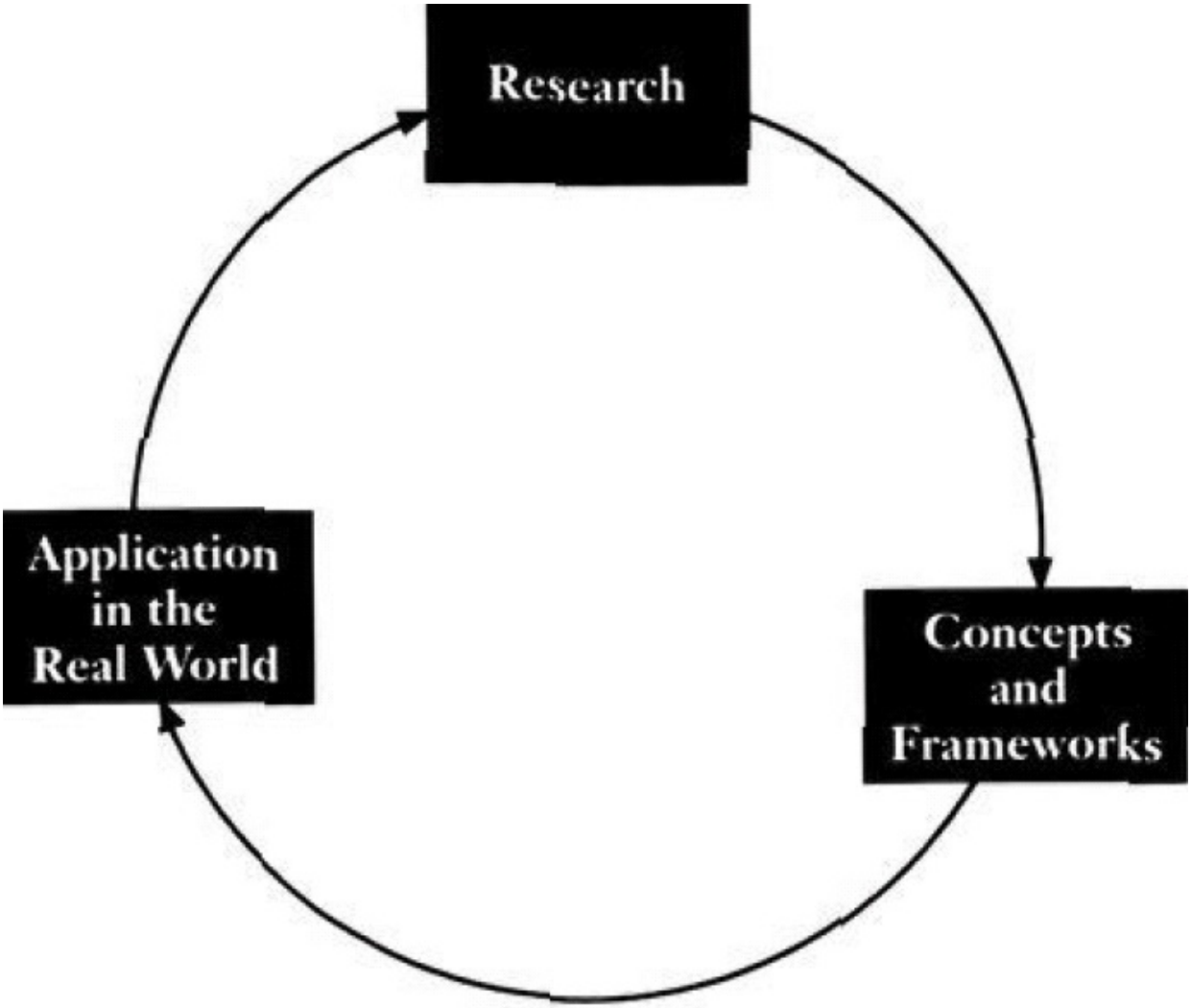
LET THE EVIDENCE SPEAK

Al research projects in the social sciences su er from inherent limitations and di culties, and ours is no exception. For one thing, we cannot perform control ed, repeatable experiments where we hold al but one critical variable constant and assess various outcomes from tweaking that variable. We would love to make petri dishes of corporations, but we can’t; we have to take what

history gives us and make the best of it. In Appendix 1 at the end of this book, we've described a variety of concerns—and our responses to those concerns—that a critical reader might raise about our research methodology.

Figure 1.A

Feedback Loop



Nonetheless, even taking ful account of those concerns, the sheer volume of information we examined combined with the continual looping process from research to theory to practice gives us con dence that our conclusions are reasonable and—perhaps most important—helpful to the development of outstanding organizations. We do not claim to have found Truth with a capital T. No one in the social sciences can claim that. But we do claim that

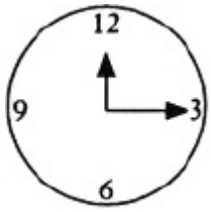
this research has given us bet er understanding of organizations and bet er conceptual tools for building outstanding companies than we had before.

We now turn to share the ndings of our work. We hope you drink deeply from this book, for the history of these companies can teach us much. But, at the same time, we hope you think critical y and objectively as you read; we would rather that you thoughtful y consider and ultimately reject our ndings than that you blindly and unquestioningly accept them. Let the evidence speak for itself.

You’re the judge and jury.

* We used 1950 as the cutof date in the study. You could also use a fifty-year minimum age cutof .

Chapter 2



Chapter 2

Clock Building, Not Time Tel ing

Above al , there was the ability to build and build and build—

never stopping, never looking back, never finishing—the institution. . In the last analysis, Walt Disney's greatest creation was Walt Disney [the company].

RICHARD SCHICKEL, THE DISNEY VERSION1

I have concentrated al along on building the finest retailing company that we possibly could. Period. Creating a huge personal fortune was never particularly a goal of mine.

SAM WALTON, FOUNDER, WAL-MART2

Imagine you met a remarkable person who could look at the sun or stars at any time of day or night and state the exact time and date: "It's April 23, 1401, 2:36 A.M., and 12 seconds." This person would be an amazing time tel er, and we'd probably revere that person for the ability to tel time. But wouldn't that person be even

person for the ability to tel time. But wouldn't that person be even more amazing if, instead of tel ing the time, he or she built a clock that could tel the time forever, even after he or she was dead and gone?3

Having a great idea or being a charismatic visionary leader is

"time tel ing"; building a company that can prosper far beyond the presence of any single leader and through multiple product life cycles is "clock building." In the rst pil ar of our ndings—and the subject of this chapter—we demonstrate how the builders of visionary companies tend to be clock builders, not time tel ers.

They concentrate primarily on building an organization—building a ticking clock—rather than on hit ing a market just right with a visionary product idea and riding the growth curve of an at ractive product life cycle. And instead of concentrating on acquiring the individual personality traits of visionary leadership, they take an architectural approach and concentrate on building the organizational traits of visionary companies. The primary output of their e orts is not the tangible implementation of a great idea, the expression of a charismatic personality, the grati cation of their ego, or the accumulation of personal wealth. Their greatest creation is the company itself and what it stands for.

We came upon this nding when the evidence from our research punched holes in two widely held and deeply cherished myths that have dominated popular thinking and business school education for years: the myth of the great idea and the myth of the great and charismatic leader. In one of the most fascinating and important conclusions from our research, we found that creating and building a visionary company absolutely does not require either a great idea or a great and charismatic leader. In fact, we found evidence that great ideas brought forth by charismatic leaders might be negatively correlated with building a visionary company. These surprising ndings forced us to look at corporate success from an entirely new angle and through a di erent lens than we had used before. They also have implications that are profoundly liberating for corporate managers and entrepreneurs alike.

THE MYTH OF THE “GREAT IDEA”

On August 23, 1937, two recently graduated engineers in their early twenties with no substantial business experience met to discuss the founding of a new company. However, they had no clear idea of what the company would make.* They only knew that they wanted to start a company with each other in the broadly de ned eld of electronic engineering. They brainstormed a wide range of initial product and market possibilities, but they had no compel ing “great idea” that served as the founding inspiration for the edgling company.

Bil Hewlet and Dave Packard decided to rst start a company and then gure out what they would make. They just started moving forward, trying

anything that might get them out of the garage and pay the light bil s. According to Bil Hewlet : When I talk to business schools occasional y, the professor of management is devastated when I say that we didn't have any plans when we started—we were just opportunistic. We did anything that would bring in a nickel. We had a bowling foul-line indicator, a clock drive for a telescope, a thing to make a urinal ush automatical y, and a shock machine to make people lose weight. Here we were, with about $500 in capital, trying whatever someone thought we might be able to do.4

The bowling foul-line indicator didn't become a market revolution. The automatic urinal ushers and fat-reduction shock machines didn't go anywhere, either. In fact, the company stumbled along for nearly a year before it got its rst big sale—eight audio oscil oscopes to Walt Disney for work on the movie Fantasia. Even then, Hewlet -Packard continued its unfocused ways, sput ering and tinkering with a variety of products, until it got a boost from war contracts in the early 1940s.

Texas Instruments, in contrast, traces its roots to a highly successful initial concept. TI began life in 1930 as Geophysical

successful initial concept. TI began life in 1930 as Geophysical Service, Inc., "the rst independent company to make re ection seismograph surveys of potential oil elds, and its Texas labs developed and produced instruments for such work."5 TI's founders, unlike Hewlet and Packard, formed their company to exploit a specific technological and market opportunity.6 TI started with a

"great idea." HP did not.

Neither did Sony. When Masaru Ibuka founded his company in August of 1945, he had no speci c product idea. In fact, Ibuka and his seven initial employees had a brainstorming session—after starting the company—to decide what products to make. According to Akio Morita, who joined the company shortly after its founding,

"The smal group sat in conference . . and for weeks they tried to gure out what kind of business this new company could enter in order to make money to operate."7 They considered a wide range of possibilities, from

sweetened bean-paste soup to miniature golf equipment and slide rules.8 Not only that, Sony's rst product at empt (a simple rice cooker) failed to work properly and its rst signi cant product (a tape recorder) failed in the marketplace. The company kept itself alive in the early days by stitching wires on cloth to make crude, but sel able, heating pads.9 In comparison, Kenwood's founder, unlike Ibuka at Sony, appeared to have a speci c category of products in mind. He christened his company with the name "Kasuga Wireless Electric Firm" in 1946 and "since its foundation," according to the Japan Electronics Almanac,

"Kenwood has always been a specialist pioneer in audio technology."10

Like fel ow legendaries Ibuka and Hewlet , Sam Walton also started without a great idea. He went into business with nothing other than the desire to work for himself and a lit le bit of knowledge (and a lot of passion) about retailing. He didn't wake up one day and say, "I have this great idea around which I'm going to start a company." No. Walton started in 1945 with a single Ben Franklin franchise ve-and-dime store in the smal town of Newport, Arkansas. "I had no vision of the scope of what I would

Newport, Arkansas. "I had no vision of the scope of what I would start," Walton commented in a New York Times interview, "but I always had con dence that as long as we did our work wel and were good to our customers, there would be no limit to us."11

Walton built incremental y, step by step, from that single store until the "great idea" of rural discount popped out as a natural evolutionary step almost two decades after he started his company.

He wrote in Made in America:

Somehow over the years folks have got en the impression that Wal-Mart was something that I dreamed up out of the blue as a middle aged man, and that it was just this great idea that turned into an over-night success. But [our rst Wal-Mart store] was total y an outgrowth of everything we'd been doing since [1945]

—another case of me being unable to leave wel enough alone, another experiment. And like most over-night successes, it was about twenty years in the making.12

In a twist of corporate irony, Ames Stores (Wal-Mart's comparison in our study), had a four-year head start over Sam Walton's company in rural discount retailing. In fact, Milton and Irving Gilman founded Ames in 1958 speci cal y to pursue the "great idea" of rural discount retailing. They "believed that discount stores would succeed in smal towns" and the company achieved $1

mil ion in sales in its rst year of operation.13 (Sam Walton didn't open his rst rural discount retail store until 1962; until then, he had simply operated a col ection of smal , main-street variety stores.)14 Nor was Ames the only other company that had a head start over Walton. According to Walton biographer Vance Trimble,

"Other retailers were out there [in 1962] trying to do just what he was doing. Only he did it bet er than nearly anyone."15

HP, Sony, and Wal-Mart put a large dent in the widely held mythology of corporate origins—a mythology that paints a picture of a far-seeing entrepreneur founding his or her company to capitalize on a visionary product idea or visionary market insight.

capitalize on a visionary product idea or visionary market insight.

This mythology holds that those who launch highly successful companies usual y begin rst and foremost with a bril iant idea (technology, product, market potential) and then ride the growth curve of an at ractive product life cycle. Yet this mythology—as compel ing and pervasive as it is—does not show up as a general pat ern in the founding of the visionary companies.

Indeed, few of the visionary companies in our study can trace their roots to a great idea or a fabulous initial product. J. Wil ard Marriot had the desire to be in business for himself, but no clear idea of what business to be in. He nal y decided to start his company with the only viable idea he could think of: take out a franchise license and open an A&W root beer stand in

Washington, D.C.16 Nordstrom started as a smal , single-outlet shoe store in downtown Seat le (when John Nordstrom, just returned from the Alaska Gold Rush, didn’t know what else to do with himself).17

Merck started merely as an importer of chemicals from Germany.18

Procter & Gamble started as a simple soap and candle maker—one of eighteen such companies in Cincinnati in 1837.19 Motorola began as a struggling bat ery eliminator repair business for Sears radios.20 Philip Morris began as a smal tobacco retail shop on Bond Street in London.21

Furthermore, some of our visionary companies began life like Sony—with outright failures. 3M started as a failed corundum mine, leaving 3M investors holding stock that fel to the barroom exchange value of “two shares for one shot of cheap whiskey.”22

Not knowing what else to do, the company began making sandpaper. 3M had such a poor start in life that its second president did not draw a salary for the rst eleven years of his tenure. In contrast, Norton Corporation, 3M’s comparison in the study, began life with innovative products in a rapidly growing market, paid steady annual dividends in al but one of its rst fteen years of operations, and multiplied its capital fteenfold during the same time.23

Bil Boeing’s rst airplane failed (“a handmade, clumsy seaplane

Bil Boeing’s rst airplane failed (“a handmade, clumsy seaplane copied from a Martin seaplane” which unked its Navy trials), and his company faced such di culty during its rst few years of operations that it entered the furniture business to keep itself aloft!24 Douglas Aircraft, in contrast, had superb initial success with its rst airplane. Designed to be the rst plane in history to make a coast-to-coast nonstop trip and to lift more load than its own weight, Douglas turned the design into a torpedo bomber which he sold in quantity to the Navy.25 Unlike Boeing, Douglas never needed to enter the furniture business to keep the company alive.26

Walt Disney’s rst cartoon series Alice in Cartoon Land (ever heard of it?) languished in the theaters. Disney biographer Richard Schickel wrote that it

was “by and large a limp, dul and cliché ridden enterprise. Al you could real y say for it was that it was a fairly ordinary comic strip set in motion and enlivened by a photographic trick.”27 Columbia Pictures, unlike Disney, at ained substantial success with its first theater release. The film, More to Be Pitied Than Scorned (1922), cost only $20,000 and realized income of $130,000, thus launching Columbia forward with a sizable cash cushion that funded the making of ten additional pro table movies in less than two years.28

WAITING FOR “THE GREAT IDEA” MIGHT BE A BAD IDEA In al , only three of the visionary companies began life with the bene t of a speci c, innovative, and highly successful initial product or service—a “great idea”: Johnson & Johnson, General Electric, and Ford. And even in the GE and Ford cases, we found some slight dents in the great idea theory. At GE, Edison’s great idea turned out to be inferior to Westinghouse’s great idea. Edison pursued direct current (DC) system, whereas Westinghouse promoted the vastly superior alternating current (AC) system, which eventual y prevailed in the U.S. market.29 In Ford’s case, contrary to popular mythology, Henry Ford didn’t come up with the idea of the Model T and then decide to start a company around that idea. Just

Model T and then decide to start a company around that idea. Just the opposite. Ford was able to take ful advantage of the Model T

concept because he already had a company in place as a launching pad. He founded the Ford Motor Company in 1903 to capitalize on his automotive engineering talent—his third company in as many years—and introduced ve models (Models A, B, C, F, and K) before he launched the famous Model T in October of 1908.30 In fact, Ford was one of 502 rms founded in the United States between 1900 and 1908 to make automobiles—hardly a novel concept at the time. In contrast to the visionary companies, we traced the founding roots of eleven comparison companies much closer to the great-idea model: Ames, Burroughs, Colgate, Kenwood, McDonnel Douglas, Norton, P zer, R.J. Reynolds, Texas Instruments, Westinghouse, and Zenith.

In other words, we found that the visionary companies were much less likely to begin life with a “great idea” than the comparison companies in our study. Furthermore, whatever the initial founding concept, we found

that the visionary companies were less likely to have early entrepreneurial success than the comparison companies.

In only three of eighteen pairs did the visionary company have greater initial success than the comparison company, whereas in ten cases, the comparison company had greater initial success than the visionary company. Five cases were indistinguishable. In short, we found a negative correlation between early entrepreneurial success and becoming a highly visionary company. The long race goes to the tortoise, not the hare.

In Appendix 2, we give a more detailed description of the founding roots of al the visionary and comparison companies.

(Even though it's in an appendix—we put it there so as not to break the flow of the text—we encourage you to browse through it.) If you are a prospective entrepreneur with the desire to start and build a visionary company but have not yet taken the plunge because you don't have a "great idea," we encourage you to lift from your shoulders the burden of the great-idea myth. Indeed, the evidence suggests that it might be bet er to not obsess on nding a great idea before launching a company. Why? Because the great-

great idea before launching a company. Why? Because the great-idea approach shifts your at ention away from seeing the company as your ultimate creation.

THE COMPANY ITSELF IS THE ULTIMATE CREATION

In courses on strategic management and entrepreneurship, business schools teach the importance of starting rst and foremost with a good idea and wel - developed product/market strategy, and then jumping through the "window of opportunity" before it closes. But the people who built the visionary companies often didn't behave or think that way. In case after case, their actions ew in the face of the theories being taught at the business schools.

Thus, early in our project, we had to reject the great idea or bril iant strategy explanation of corporate success and consider a new view. We had to put on a di erent lens and look at the world backward. We had to shift from seeing

the company as a vehicle for the products to seeing the products as a vehicle for the company.

We had to embrace the crucial di erence between time tel ing and clock building.

To quickly grasp the di erence between clock building and time tel ing, compare GE and Westinghouse in their early days. George Westinghouse was a bril iant product visionary and prolific inventor who founded fty-nine other companies besides Westinghouse.31

Additional y, he had the insight that the world should favor the superior AC electrical system over Edison's DC system, which it eventual y did.32 But compare George Westinghouse to Charles Co n, GE's rst president. Co n invented not a single product. But he sponsored an innovation of great signi cance: the establishment of the General Electric Research Lab, bil ed as "America's rst industrial research laboratory."33 George Westinghouse told the time; Charles Co n built a clock. Westinghouse's greatest creation was the AC power system; Cof in's greatest creation was the General Electric Company.

Luck favors the persistent. This simple truth is a fundamental

Luck favors the persistent. This simple truth is a fundamental cornerstone of successful company builders. The builders of visionary companies were highly persistent, living to the mot o: Never, never, never give up. But what to persist with? Their answer: The company. Be prepared to kil , revise, or evolve an idea (GE moved away from its original DC system and embraced the AC

system), but never give up on the company. If you equate the success of your company with success of a speci c idea—as many businesspeople do—then you're more likely to give up on the company if that idea fails; and if that idea happens to succeed, you're more likely to have an emotional love a air with that idea and stick with it too long, when the company should be moving vigorously on to other things. But if you see the ultimate creation as the company, not the execution of a speci c idea or capitalizing on a timely market opportunity, then you can persist beyond any speci c

idea—good or bad—and move toward becoming an enduring great institution.

For example, HP learned humility early in its life, due to a string of failed and only moderately successful products. Yet Bil Hewlet and Dave Packard kept tinkering, persisting, trying, and experimenting until they gured out how to build an innovative company that would express their core values and earn a sustained reputation for great products. Trained as engineers, they could have pursued their goal by being engineers. But they didn't. Instead, they quickly made the transition from designing products to designing an organization—creating an environment—conducive to the creation of great products. As early as the mid-1950s, Bil Hewlet displayed a clock-building perspective in an internal speech: Our engineering sta [has] remained fairly stable. This was by design rather than by accident. Engineers are creative people, so before we hired an engineer we made sure he would be operating in a stable and secure climate. We also made sure that each of our engineers had a long range opportunity with the company and suitable projects on which to work. Another thing, we made certain that we had adequate supervision so that our

we made certain that we had adequate supervision so that our engineers would be happy and would be productive to the maximum extent. . [The process of] engineering is one of our most important products [emphasis added]. . we are going to put on the best engineering program you have ever seen. If you think we have done wel so far, just wait until two or three years from now when we get al of our new lab people producing and al of the supervisors rol ing. You'l see some real progress then!34

Dave Packard echoed the clock-building orientation in a 1964

speech: "The problem is, how do you develop an environment in which individuals can be creative? . . I believe that you have to put a good deal of thought to your organizational structure in order to provide this environment."35 In 1973, an interviewer asked Packard what speci c product decisions he considered the most important in the company's growth. Packard's response didn't include one single product decision. He answered entirely in terms of organizational decisions: developing an engineering team, a pay-as-you-go policy to impose scal discipline, a pro t-

sharing program, personnel and management policies, the “HP Way” philosophy of management, and so on. In a t ing twist, the interviewer titled the article, “Hewlet Packard Chairman Built Company by Design, Calculator by Chance.”36

BILL Hewlet and Dave Packard’s ultimate creation wasn’t the audio oscil oscope or the pocket calculator. It was the Hewlet -Packard Company and the HP Way.

Similarly, Masaru Ibuka’s greatest “product” was not the Walkman or the Trinitron; it was Sony the company and what it stands for.

Walt Disney’s greatest creation was not Fantasia, or Snow White, or even Disneyland; it was the Walt Disney Company and its uncanny

even Disneyland; it was the Walt Disney Company and its uncanny ability to make people happy. Sam Walton’s greatest creation wasn’t the Wal-Mart concept; it was the Wal-Mart Corporation—an organization that could implement retailing concepts on a large scale bet er than any company in the world. Paul Galvin’s genius lay not in being an engineer or inventor (he was actual y a self-educated but twice-failed businessman with no formal technology training),37 but in his crafting and shaping of an innovative engineering organization that we’ve come to cal the Motorola Company. Wil iam Procter and James Gamble’s most signi cant contribution was not hog fat soap, lamp oils, or candles, for these would eventual y become obsolete; their primary contribution was something that can never become obsolete: a highly adaptable organization with a “spiritual inheritance”38 of deeply ingrained core values transferred to generation after generation of P&G

people.

We ask you to consider this crucial shift in thinking—the shift to seeing the company itself as the ultimate creation. If you’re involved in building and managing a company, this shift has signi cant implications for how you spend your time. It means spending less of your time thinking about speci c product lines and market strategies, and spending more of your time thinking about organization design. It means spending less of your time

thinking like George Westinghouse, and spending more of your time thinking like Charles Co n, David Packard, and Paul Galvin. It means spending less of your time being a time tel er, and spending more of your time being a clock builder.

We don’t mean to imply that the visionary companies never had superb products or good ideas. They certainly did. And, as we’l discuss later in the book, most of them view their products and services as making useful and important contributions to customers’

lives. Indeed, these companies don’t exist just to “be a company”; they exist to do something useful. But we suggest that the continual stream of great products and services from highly visionary companies stems from them being outstanding organizations, not the other way around. Keep in mind that al products, services, and

the other way around. Keep in mind that al products, services, and great ideas, no mat er how visionary, eventual y become obsolete.

But a visionary company does not necessarily become obsolete, not if it has the organizational ability to continual y change and evolve beyond existing product life cycles. (In later chapters, we wil describe how the visionary companies achieve this.) Similarly, al leaders, no mat er how charismatic or visionary, eventual y die. But a visionary company does not necessarily die, not if it has the organizational strength to transcend any individual leader and remain visionary and vibrant decade after decade and through multiple generations.

This brings us to a second great myth.

THE MYTH OF THE GREAT AND CHARISMATIC LEADER

When we ask executives and business students to speculate about the distinguishing variables—the root causes—in the success of the visionary companies, many mention “great leadership.” They point to George W. Merck, Sam Walton, Wil iam Procter, James Gamble, Wil iam E. Boeing, R. W. Johnson, Paul Galvin, Bil Hewlet , Dave Packard, Charles Co n, Walt Disney, J. Wil ard Marriot , Thomas J.

Watson, and John Nordstrom. They argue that these chief executives displayed high levels of persistence, overcame signi cant obstacles, at racted dedicated people to the organization, in uenced groups of people toward the achievement of goals, and played key roles in guiding their companies through crucial episodes in their history.

But—and this is the crucial point—so did their counterparts at the comparison companies! Charles P zer, the Gilman brothers (Ames), Wil iam Colgate, Donald Douglas, Wil iam Bristol, John Myers, Commander Eugene F. McDonald (Zenith), Pat Haggarty (TI), George Westinghouse, Harry Cohn, Howard Johnson, Frank Melvil e—these people also displayed high levels of persistence.

T h e y also overcame signi cant obstacles. They also at racted dedicated people to the organization. They also in uenced groups of people toward the achievement of goals. They also played key roles in guiding their companies through crucial episodes in their

roles in guiding their companies through crucial episodes in their history. A systematic analysis revealed that the comparison companies were just as likely to have solid “leadership” during the formative years as the visionary companies. (See Table A.3 in Appendix 3.)

In short, we found no evidence to support the hypothesis that great leadership is the distinguishing variable during the critical, formative stages of the visionary companies. Thus, as our study progressed, we had to reject the great-leader theory; it simply did not adequately explain the dif erences between the visionary and comparison companies.

Charisma Not Required

Before we describe what we see as the crucial di erence between the early shapers of visionary companies versus the comparison companies (for we do think there is a crucial di erence), we’d like to share an interesting corol ary: A high-pro le, charismatic style is absolutely not required to successful y shape a visionary company.

Indeed, we found that some of the most signi cant chief executives in the history of the visionary companies did not have the personality traits of the archetypal high-pro le, charismatic visionary leader.

Consider Wil iam McKnight. Do you know who he is? Does he stand out in your mind as one of the great business leaders of the twentieth century? Can you describe his leadership style? Have you read his biography? If you're like most people, you know lit le or nothing about Wil iam McKnight. As of 1993, he had not made it into Fortune magazine's "National Business Hal of Fame."39 Few articles have ever been writ en about him. His name doesn't appear in the Hoover's Handbook sketch of the company's history.40 When we started our research, we're embarrassed to say, we didn't even recognize his name. Yet the company McKnight guided for fty-two years (as general manager from 1914 to 1929, chief executive from 1929 to 1949, and chairman from 1949 to 1966) earned fame and

1929 to 1949, and chairman from 1949 to 1966) earned fame and admiration with businesspeople around the world; it carries the revered name Minnesota, Mining, and Manufacturing Company (or 3M for short). 3M is famous; McKnight is not. We suspect he would have wanted it exactly that way.

McKnight began work in 1907 as a simple assistant bookkeeper and rose to cost accountant and sales manager before becoming general manager. We could nd no evidence that he had a highly charismatic leadership style. Of the nearly fty references to McKnight in the company's self-published history, only one refers to his personality, and that described him as "a soft-spoken, gentle man."41 His biographer described him as "a good listener,"

"humble," "modest," "slightly stooped," "unobtrusive and soft-spoken," "quiet, thoughtful, and serious."42

McKnight is not the only signi cant chief executive in the history of the visionary companies who breaks the archetypal model of the charismatic visionary leader. Masaru Ibuka of Sony had a reputation as being reserved, thoughtful, and introspective.43 Bil Hewlet reminded us of a friendly, no-nonsense, mat er-of-fact, down-to-earth farmer from Iowa. Messrs. Procter

and Gamble were sti , prim, proper, and reserved—even deadpan.44 Bil Al en—the most signi cant CEO in Boeing's history—was a pragmatic lawyer,

"rather benign in appearance with a rather shy and infrequent smile."45 George W. Merck was "the embodiment of 'Merck restraint.' "46

We've worked with quite a few managers who have felt frustrated by al the books and articles on charismatic business leadership and who ask the sensible question, "What if high-pro le charismatic leadership is just not my style?" Our response: Trying to develop such a style might be wasted energy. For one thing, psychological evidence indicates that personality traits get set relatively early in life through a combination of genetics and experience, and there is lit le evidence to suggest that by the time you're in a managerial role you can do much to change your basic personality style.47 For another—and even more important—our research indicates that you

another—and even more important—our research indicates that you don't need such a style anyway.

IF you're a high-pro le charismatic leader, ne. But if you're not, then that's ne, too, for you're in good company right along with those that built companies like 3M, P&G, Sony, Boeing, HP, and Merck. Not a bad crowd.

Please don't misunderstand our point here. We're not claiming that the architects of these visionary companies were poor leaders.

We're simply pointing out that a high-pro le, charismatic style is clearly not required for building a visionary company. (In fact, we speculate that a highly charismatic style might show a slight negative correlation with building a visionary company, but the data on style are too spot y and soft to make a rm statement.) We're also pointing out—and this is the essential point of this section—that both sets of companies have had strong enough leaders at formative stages that great leadership, be it charismatic or otherwise, cannot explain the superior trajectories of the visionary companies over the comparison companies.

We do not deny that the visionary companies have had superb individuals atop the organization at critical stages of their history.

They often did. Furthermore, we think it unlikely that a company can remain highly visionary with a continuous string of mediocre people at the top. In fact, as we wil discuss in a later chapter, we found that the visionary companies did a bet er job than the comparison companies at developing and promoting highly competent managerial talent from inside the company, and they thereby at ained greater continuity of excel ence at the top through multiple generations. But, as with great products, perhaps the continuity of superb individuals atop visionary companies stems from the companies being outstanding organizations, not the other way around.

way around.

Consider Jack Welch, the high-pro le CEO at General Electric in the 1980s and early 1990s. We cannot deny that Welch played a huge role in revitalizing GE or that he brought an immense energy, drive, and a magnetic personality with him to the CEO's o ce. But obsessing on Welch's leadership style diverts us from a central point: Welch grew up in GE; he was a product of GE as much as the other way around. Somehow GE the organization had the ability to at ract, retain, develop, groom, and select Welch the leader. GE

prospered long before Welch and wil probably prosper long after Welch. After al , Welch was not the rst excel ent CEO in GE's history, and he probably wil not be the last. Welch's role was not insigni cant, but it was only a smal slice of the entire historical story of the General Electric Company. The selection of Welch stemmed from a good corporate architecture—an architecture that traces its roots to people like Charles Co n, who, in contrast to George Westinghouse, took an architectural approach to building the company. (We wil more thoroughly discuss Welch and GE in Chapter 8.)

AN ARCHITECTURAL APPROACH: CLOCK BUILDERS AT WORK

As in the case of Charles Co n versus George Westinghouse, we did see in our study di erences between the two groups of early shapers, but the di

erences were more subtle than “great leader”

versus “not great leader.” The key di erence, we believe, is one of orientation—the evidence suggests to us that the key people at formative stages of the visionary companies had a stronger organizational orientation than in the comparison companies, regardless of their personal leadership style. As the study progressed, in fact, we became increasingly uncomfortable with the term “leader” and began to embrace the term “architect” or “clock builder.” (A second key di erence relates to the type of clock they built—the subject of later chapters.) The fol owing contrasts further il ustrate what we mean by an architectural, or clock-building, approach.

Citicorp Versus Chase

James Stil man, Citicorp’s president from 1891 to 1909 and chairman to 1918, concentrated on organizational development in pursuit of his goal to build a great national bank.48 He transformed the bank from a narrow parochial rm into “a ful y modern corporation.”49 He oversaw the bank as it opened new o ces, instituted a decentralized multidivisional structure, constructed a powerful board of directors composed of leading CEOs, and established management training and recruiting programs (instituted three decades earlier than at Chase).50 Citibank 1812–

1970 describes how Stil man sought to architect an institution that would thrive far beyond his own lifetime:

Stil man intended National City [precursor to Citicorp] to retain its position [as the largest and strongest bank in the United States] even after his death, and to ensure this he l ed the new building with people who shared his own vision and entrepreneurial spirit, people who would build an organization.

He would step aside himself and let them run the bank.51

Stil man wrote in a let er to his mother about his decision to step aside, to the role of chairman, so that the company could more easily grow beyond him:

I have been preparing for the past two years to assume an advisory position at the Bank and to decline re-election as its o cial head. I know this is wise and it not only relieves me of the responsibility of details, but gives my associates an opportunity to make names for themselves [and lays] the foundation for limitless possibilities, greater even for the future than what has been accomplished in the past.52

Albert Wiggin, Stil man's counterpart at Chase (president from 1911 to 1929), did not delegate at al . Decisive, humorless, and ambitious, Wiggin's primary concern appeared to be with his own aggrandizement. He sat on the boards of fty other companies and ran Chase with such a strong, centralized control ing hand that Business Week wrote, "The Chase Bank is Wiggin and Wiggin is the Chase Bank."53

Wal-Mart Versus Ames

No doubt Sam Walton had the personality characteristics of a amboyant, charismatic leader. We cannot help but think of his shimmy-shaking down Wal Street in a grass skirt and ower leis backed by a band of hula dancers (to ful l a promise to employees for breaking 8 percent pro t), or his leaping up on store counters and leading hundreds of screaming employees through a rousing rendition of the Wal-Mart Cheer. Yes, Walton had a unique and powerful personality. But so did thousands of other people who didn't build a Wal-Mart.

Indeed, the key di erence between Sam Walton and the leaders at Ames is not that he was a more charismatic leader, but that he was much more of a clock builder—an architect. By his early twenties, Walton had pret y much set led upon his personality style; he spent the bulk of his life in a never-ending quest to build and develop the capabilities of the Wal-Mart organization, not in a quest to develop his leadership personality.54 This was true even in Walton's own eyes, as he wrote in Made in America:

What nobody realized, including a few of my own managers at the time, was that we were real y trying from the beginning to become the very best operators—the most professional managers—that we could. There's no question that I have the personality of a promoter. . But underneath that personality, I have always had the soul of an operator, somebody who wants

have always had the soul of an operator, somebody who wants to make things work wel , then bet er, then the best they possibly can. . I was never in anything for the short haul; I always wanted to build as ne a retailing organization as I could.55

For example, Walton valued change, experimentation, and constant improvement. But he didn't just preach these values, he instituted concrete organizational mechanisms to stimulate change and improvement. Using a concept cal ed "A Store Within a Store,"

Walton gave department managers the authority and freedom to run each department as if it were their own business.56 He created cash awards and public recognition for associates who contribute cost saving and/or service enhancements ideas that could be reproduced at other stores. He created "VPI (Volume Producing Item) Contests" to encourage associates to at empt creative experiments.57 He instituted merchandise meetings, to discuss experiments that should be selected for use throughout the entire chain, and Saturday morning meetings, which often featured an individual employee who tried something novel that worked real y wel . Pro t sharing and employee stock ownership produced a direct incentive for employees to come up with new ideas, so that the whole company might bene t. Tips and ideas generated by associates got published in the Wal-Mart internal magazine.58 Wal-Mart even invested in a satel ite communications system "to spread al the lit le details around the company as soon as possible."59 In 1985, stock analyst A. G. Edwards described the ticking Wal-Mart clock:

Personnel operate in an environment where change is encouraged. For example, if a . . store associate makes suggestions regarding [merchandising or cost savings ideas], these ideas are quickly disseminated. Multiply each suggestion by over 750 stores and by over 80,000 employees (who can potential y make suggestions) and this leads to substantial sales

potential y make suggestions) and this leads to substantial sales gains, cost reductions and improved productivity.60

Whereas Walton concentrated on creating an organization that would evolve and change on its own, Ames leaders dictated al changes from above and detailed in a book the precise steps a store manager should take, leaving no

room for initiative.61 Whereas Walton groomed a capable successor to take over the company after his death (David Glass), the Gilmans had no such person in place, thus leaving the company to outsiders who did not share their philosophy.62 Whereas Walton passed along his clock-building orientation to his successor, postfounder CEOs at Ames recklessly pursued disastrous acquisitions in an blind, obsessive pursuit of raw growth for growth's sake, gulping down 388 Zayre stores in one bite. In describing Wal-Mart's key ingredient for future success, David Glass said "Wal-Mart associates wil nd a way" and "Our people are relentless."63 Ames CEO of the same era said, "The real answer and the only issue is market share."64

In a sad note, a 1990 Forbes article on Ames noted, "Co-founder Herbert Gilman has seen his creation destroyed."65 On a happier note, Sam Walton died with his creation intact and the belief that it could prosper long beyond him, stronger than ever. He knew that he would probably not live to the year 2000, yet shortly before he died in 1992, he set audacious goals for the company out to the year 2000, displaying a deep con dence in what the company could achieve independent of his presence.66

Motorola Versus Zenith

Motorola's founder, Paul Galvin, dreamed rst and foremost about building a great and lasting company.67 Galvin, architect of one of the most successful technology companies in history, did not have an engineering background, but he hired excel ent engineers. He encouraged dissent, discussion, and disagreement, and gave

encouraged dissent, discussion, and disagreement, and gave individuals "the latitude to show what they could do largely on their own."68 He set chal enges and gave people immense responsibility so as to stimulate the organization and its people to grow and learn, often by failures and mistakes.69 Galvin's biographer summarized, "He was not an inventor, but a builder whose blueprints were people."70 According to his son, Robert W.

Galvin, "My father urged us to reach out . . to people—to al the people—for their leadership contribution, yes their creative leadership contribution. . Early on, [he] was obsessed with management succession. Ironical y, he did not fear his own demise.

His concern was for the company [emphasis ours].”71

In contrast, Zenith’s founder, Commander Eugene F. McDonald, Jr., had no succession plan, thus leaving a void of talent at the top after his unexpected death in 1958.72 McDonald was a tremendously charismatic leader who moved the company forward primarily through the sheer force of his gigantic personality.

Described as “the volatile, opinionated mastermind of Zenith,”

McDonald had “colossal self-assurance . . based on a very high opinion of his own judgment.”73 He expected al except his closest friends to address him as “Commander.” A bril iant tinkerer and experimenter who pushed many of his own inventions and ideas, he had a rigid at itude that almost caused Zenith to miss out on television.74 A history of Zenith states:

McDonald’s amboyant style was echoed in the company’s dramatic advertising methods and this style, coupled with innovative genius and an ability to sense changes in public tastes, meant that for more than three decades, in the public perception McDonald was Zenith.75

Two and an half years after McDonald’s death, Fortune magazine commented: “[Zenith] is stil growing and reaping pro ts from the drive and imagination of its late founder. McDonald’s powerful personality remains a palpable in uence in the company. But

personality remains a palpable in uence in the company. But Zenith’s future now depends on its ability and new drive to meet conditions McDonald never anticipated.”76 A competitor commented, “As time goes on, Zenith wil miss McDonald more and more.”77

Galvin and McDonald died within eighteen months of each other.78 Motorola sailed successful y into new arenas never dreamed of by Galvin; Zenith languished and, as of 1993, it never regained the energy and innovative spark that it had during McDonald’s lifetime.

Walt Disney Versus Columbia Pictures

Quick, stop and think: Disney. What comes to mind? Can you create a clear image or set of images that you associate with Disney? Now do the same thing for Columbia Pictures. What comes to mind? Can you put your nger on distinct and clear images? If you're like most people, you can conjure up images of what Disney means, but you probably had trouble with Columbia Pictures.

In the case of Walt Disney, it is clear that Walt brought immense personal imagination and talent to building Disney. He personal y originated many of Disney's best creations, including Snow White (the world's rst-ever ful - length animated lm), the character of Mickey Mouse, the Mickey Mouse Club, Disneyland, and EPCOT

Center. By any measure, he was a superb time tel er. But, even so, in comparison to Harry Cohn—Disney's counterpart at Columbia Pictures—Walt was much more of a clock builder.

Cohn "cultivated his image as a tyrant, keeping a riding whip near his desk and occasional y cracking it for emphasis, and Columbia had the greatest creative turnover of any major studio due largely to Cohn's methods."79 An observer of his funeral in 1958 commented that the thirteen hundred at endees "had not come to bid farewel , but to make sure he was actual y dead."80 We could nd no evidence of any concern for employees by Cohn. Nor could we nd any evidence that he took steps to develop the long-term

any evidence that he took steps to develop the long-term capabilities or distinct self-identity of Columbia Pictures as an institution.

The evidence suggests that Cohn cared rst and foremost about becoming a movie mogul and wielding immense personal power in Hol ywood (he became the rst person in Hol ywood to assume the titles of president and producer) and cared lit le or not at al about the qualities and identity of the Columbia Pictures Company that might endure beyond his lifetime.81 Cohn's personal purpose propel ed Columbia Pictures forward for years, but such personal and egocentric ideology could not possibly guide and inspire a company after the founder's death. Upon Cohn's death, the company fel into listless disarray, had to be rescued in 1973, and was eventual y sold to Coca-Cola.

Walt Elias Disney, on the other hand, spent the day before he died in a hospital bed thinking out loud about how to best develop Disney World in Florida.82 Walt would die, but Disney's ability to make people happy, to bring joy to children, to create laughter and tears would not die. Throughout his life, Walt Disney paid greater at ention to developing his company and its capabilities than did Cohn at Columbia. In the late 1920s, he paid his creative sta more than he paid himself.83 In the early 1930s, he established art classes for al animators, instal ed a smal zoo on location to provide live creatures to help improve their ability to draw animals, invented new animation team processes (such as storyboards), and continual y invested in the most advanced animation technologies.84 In the late 1930s, he instal ed the rst generous bonus system in the cartoon industry to at ract and reward good talent.85 In the 1950s, he instituted employee "You Create Happiness" training programs and, in the 1960s, he established Disney University to orient, train, and indoctrinate Disney employees.86 Harry Cohn took none of these steps.

Granted, Walt did not clock build as wel as some of the other architects in our study, and the Disney lm studio languished for nearly fteen years after his death as Disneyites ran around asking

nearly fteen years after his death as Disneyites ran around asking themselves, "What would Walt do?"87 But the fact remains that Walt, unlike Cohn, created an institution much bigger than himself, an institution that could stil deliver the "Disney Magic" to kids at Disneyland decades after his death. During the same time period that Columbia ceased to exist as an independent entity, the Walt Disney Company mounted an epic (and ultimately successful) ght to prevent a hostile takeover. To the Disney executives and family, who could have made a tidy multimil ion-dol ar pro t on their stock had the raiders been successful, Disney had to be preserved as an independent entity because it was Disney. In the preface to his book Storming the Magic Kingdom, a superb account of the Disney takeover at empt, John Taylor wrote:

To accept [the takeover o er] was unthinkable. Walt Disney Productions was not just another corporate entity. . that needed to be rationalized by liquidation of its assets to achieve maximum value for its shareholders. Nor

was Disney just another brand name. . The company's executives saw Disney as a force shaping the imaginative life of children around the world. It was woven into the very fabric of American culture.

Indeed, its mission—and it did, they believed, have a mission as important as making money for its stockholders—was to celebrate American values.88

Disney went on in the 1980s and 1990s to rekindle the heritage instal ed by Walt decades earlier. In contrast, Cohn's company had lit le to save or rekindle. No one felt Columbia had to be preserved as an independent entity; if the shareholders could get more money by sel ing out, then so be it.

THE MESSAGE FOR CEOS, MANAGERS, AND ENTREPRENEURS

One of the most important steps you can take in building a visionary company is not an action, but a shift in perspective. There wil be plenty of action-oriented ndings in the chapters that

wil be plenty of action-oriented ndings in the chapters that fol ow. But to make good use of them requires rst and foremost acquiring the right frame of mind. And that's the point of this chapter. We're doing nothing less than asking you to make a shift in thinking as fundamental as those that preceded the Newtonian revolution, the Darwinian revolution, and the founding of the United States.

Prior to the Newtonian revolution, people explained the world around them primarily in terms of a God that made speci c decisions. A child would fal and break his arm, and it was an act of God. Crops failed; it was an act of God. People thought of an omnipotent God who made each and every speci c event happen.

Then in the 1600s people said, "No, that's not it! What God did was to put in place a universe with certain principles, and what we need to do is gure out how those principles work. God doesn't make al the decisions. He set in place processes and principles that would carry on."89 From that point on,

people began to look for basic underlying dynamics and principles of the entire system.

That’s what the Newtonian revolution was al about.

Similarly, the Darwinian revolution gave us a dramatic shift in thinking about biological species and natural history—a shift in thinking that provides fruitful analogies to what we’ve seen in the visionary companies. Prior to the Darwinian revolution, people primarily presumed that God created each and every species intact and for a speci c role in the natural world: Polar bears are white because God created them that way, cats purr because God created them that way; robins have red breasts because God created them that way. We humans have a great need to explain the world around us by presuming that someone or something must have had it al gured out—something must have said, “We need robins with red breasts to t here in the ecosystem.” But if the biologists are right, it doesn’t work that way. Instead of jumping directly to robins with red breasts (time tel ing), we have instead an underlying process of evolution (the genetic code, DNA, genetic variation and mutation, natural selection) which eventual y produces robins with red breasts that appear to t perfectly in the ecosystem.90 The

red breasts that appear to t perfectly in the ecosystem. The beauty and functionality of the natural world springs from the success of its underlying processes and intricate mechanisms in a marvelous “ticking clock.”

Likewise, we’re asking you to see the success of visionary companies—at least in part—as coming from underlying processes and fundamental dynamics embedded in the organization and not primarily the result of a single great idea or some great, al -

knowing, godlike visionary who made great decisions, had great charisma, and led with great authority. If you’re involved in building and managing a company, we’re asking you to think less in terms of being a bril iant product visionary or seeking the personality characteristics of charismatic leadership, and to think more in terms of being an organizational visionary and building the characteristics of a visionary company.

Indeed, we're asking you to consider a shift in thinking analogous to the shift required to found the United States in the 1700s. Prior to the dramatic revolutions in political thought of the seventeenth and eighteenth centuries, the prosperity of a European kingdom or country depended in large part on the quality of the king (or, in the case of England, perhaps the queen). If you had a good king, then you had a good kingdom. If the king was a great and wise leader, then the kingdom might prosper as a result.

Now compare the good-king frame of reference with the approach taken at the founding of the United States. The critical question at the Constitutional Convention in 1787 was not "Who should be president? Who should lead us? Who is the wisest among us? Who would be the best king?" No, the founders of the country concentrated on such questions as "What processes can we create that wil give us good presidents long after we're dead and gone?

What type of enduring country do we want to build? On what principles? How should it operate? What guidelines and mechanisms should we construct that wil give us the kind of country we envision?"

Thomas Je erson, James Madison, and John Adams were not charismatic visionary leaders in the "it al depends on me" mode.91

charismatic visionary leaders in the "it al depends on me" mode.

No, they were organizational visionaries. They created a constitution to which they and al future leaders would be subservient. They focused on building a country. They rejected the good-king model. They took an architectural approach. They were clock builders!

But notice: In the case of the United States, it's not a cold, mechanistic Newtonian or Darwinian clock. It's a clock based on human ideals and values. It's a clock built on human needs and aspirations. It's a clock with a spirit.

And that brings us to the second pil ar of our ndings: It's not just building any random clock; it's building a particular type of clock.

Although the shapes, sizes, mechanisms, styles, ages, and other at ributes of the ticking clocks vary across visionary companies, we found that they share an underlying set of fundamental characteristics. In the chapters that fol ow, we describe these characreristics. For now, the important thing to keep in mind is that once you make the shift from time tel ing to clock building, most of what's required to build a visionary company can be learned. You don't have to sit around waiting until you're lucky enough to have a great idea. You don't have to accept the false view that until your company has a charismatic visionary leader, it cannot become a visionary company. There is no mysterious quality or elusive magic.

Indeed, once you learn the essentials, you—and al those around you—can just get down to the hard work of making your company a visionary company.

*The organizing meeting took place in 1937; the of icial founding occurred in early 1938.

Interlude

Interlude

No "Tyranny of the OR" (Embrace the

"Genius of the AND")

You'l notice throughout the rest of this book that we use the yin/yang symbol from Chinese dualistic philosophy. We've consciously selected this

symbol to represent a key aspect of highly visionary companies: They do not oppress themselves with what we cal the “Tyranny of the OR”—the rational view that cannot easily accept paradox, that cannot live with two seemingly contradictory forces or ideas at the same time. The “Tyranny of the OR” pushes people to believe that things must be either A OR B, but not both. It makes such proclamations as:

• “You can have change OR stability.”

• “You can be conservative OR bold.”

• “You can be conservative OR bold.”

• “You can have low cost OR high quality.”

• “You can have creative autonomy OR consistency and control.”

• “You can invest for the future OR do wel in the short-term.”

• “You can make progress by methodical planning OR by opportunistic groping.”

• “You can create wealth for your shareholders OR do good for the world.”

• “You can be idealistic (values-driven) OR pragmatic (pro t-driven).”

Instead of being oppressed by the “Tyranny of the OR,” highly visionary companies liberate themselves with the “Genius of the AND”—the ability to embrace both extremes of a number of dimensions at the same time. Instead of choosing between A OR B, they figure out a way to have both A AND B.

As we move into the rich detail of the next eight chapters, you’l encounter, as we did in our research, a series of these paradoxes—

apparent contradictions in many of the visionary companies. For example, you wil encounter:

On the one hand:

Yet, on the other hand:

pragmatic pursuit of

purpose beyond profit

AND

profit

vigorous change and

a relatively fixed core ideology

AND

movement

bold, commit ing, risky

conservatism around the core

AND

moves

opportunistic groping

clear vision and sense of direction

AND

and experimentation

incremental evolutionary

incremental evolutionary

Big Hairy Audacious Goals

AND

progress

selection of managers

selection of managers steeped in the core AND

that induce change

ideological control

AND

operational autonomy

ability to change, move,

extremely tight culture (almost cult-like) AND

and adapt

demands for short-term

investment for the long-term

AND

performance

superb daily execution,

philosophical, visionary, futuristic

AND

“nuts and bolts”

organization adapted to

organization aligned with a core ideology AND

its environment.

We’re not talking about mere balance here. “Balance” implies going to the midpoint, fty- fty, half and half. A visionary company doesn’t seek balance between short-term and long-term, for example. It seeks to do very wel in the short-term and very wel in the long-term. A visionary company doesn’t simply balance between idealism and pro tability; it seeks to be highly idealistic and highly pro table. A visionary company doesn’t simply balance between preserving a tightly held core ideology and stimulating vigorous change and movement; it does both to an extreme. In short, a highly visionary company doesn’t want to blend yin and yang into a gray, indistinguishable circle that is neither highly yin nor highly yang; it aims to be distinctly yin and distinctly yang

—both at the same time, al the time.

Irrational? Perhaps. Rare? Yes. Di cult? Absolutely. But as F.

Scot Fitzgerald pointed out, “The test of a rst-rate intel igence is the ability to hold two opposed ideas in the mind at the same time, and stil retain the ability to function.”1 This is exactly what the

and stil retain the ability to function.” This is exactly what the visionary companies are able to do.

Chapter 3

Chapter 3

More Than Profits

Our basic principles have endured intact since our founders conceived them. We distinguish between core values and practices; the core values don’t change, but the practices might. We’ve also remained clear that profit —as important as it is—is not why the Hewlet -Packard Company exists; it exists for more fundamental reasons.

JOHN YOUNG, FORMER CEO, HEWLETT-PACKARD, 19921

We are in the business of preserving and improving human life. Al of our actions must be measured by our success in achieving this goal.

MERCK & COMPANY, INTERNAL MANAGEMENT GUIDE, 19892

Put ing profits after people and products was magical at Ford.

DON PETERSEN, FORMER CEO, FORD, 19943

When Merck & Company reached its hundredth birthday, it published a book entitled Values and Visions: A Merck Century.

Notice something? The title doesn’t even mention what Merck does.

Merck could have titled the book From

Chemicals to

Pharmaceuticals: A Merck Century or A Hundred Years of Financial Success at Merck. But it didn’t. It chose instead to emphasize that it has been throughout its history a company guided and inspired by a set of ideals. In 1935 (decades before “values statements” became popular), George Merck I articulated those ideals when he said,

“[We] are workers in industry who are genuinely inspired by the ideals of advancement of medical science, and of service to humanity.”4 In 1991—fty-six years and three ful generations of leadership later—Merck’s chief executive P. Roy Vagelos sang the same idealistic tune: “Above al , let’s remember that our business success means victory against disease and help to humankind.”5

With these ideals as a backdrop, we’re not surprised that Merck elected to develop and give away Mectizan, a drug to cure “river blindness,” a disease that infected over a mil ion people in the Third World with parasitic worms that swarmed through body tissue and eventual y into the eyes, causing painful blindness. A mil ion customers is a good-sized market, except that these were customers who could not a ord the product. Knowing that the project would not produce a large return on investment—if it produced one at al —the company nonetheless went forward with the hope that some government agencies or other third parties would purchase and distribute the product once available. No such luck, so Merck elected to give the drug away free to al who needed it.6 Merck also involved itself directly in distribution e orts—at its

it. Merck also involved itself directly in distribution e orts—at its own expense—to ensure that the drug did indeed reach the mil ions of people at risk from the disease.

Asked why Merck made the Mectizan decision, Vagelos pointed out that failure to go forward with the product could have demoralized Merck scientists—scientists working for a company that explicitly viewed itself as “in the business of preserving and improving human life.” He also commented:

When I rst went to Japan fteen years ago, I was told by Japanese business people that it was Merck that brought streptomycin to Japan after World War I , to eliminate tuberculosis which was eating up their society. We did that. We didn’t make any money. But it’s no accident that Merck is the largest American pharmaceutical company in Japan today. The long-term consequences of [such actions] are not always clear, but somehow I think they always pay of .7

PRAGMATIC IDEALISM (NO “TYRANNY OF THE OR”)

Did Merck’s ideals—ideals that had consistently de ned the company’s self-identity since the late 1920s—drive the Mectizan decision? Or did Merck make the decision for pragmatic reasons—

good long-term business and good PR? Our answer: Both. Merck’s ideals played a substantial role in the decision and the evidence suggests that Merck would have gone ahead with the project regardless of whether it created long-term business bene ts for the company. But the evidence also suggests that Merck acted on the assumption that such acts of goodwil “somehow . . always pay of .”

This is a classic example of the “Genius of the AND” prevailing over the “Tyranny of the OR.” Merck has displayed throughout most of its history both high ideals and pragmatic self-interest. George Merck I explained this paradox in 1950:

I want to. . express the principles which we in our company have endeavored to live up to. . Here is how it sums up: We try

have endeavored to live up to. . Here is how it sums up: We try to remember that medicine is for the patient. We try never to forget that medicine is for the people. It is not for the pro ts.

The pro ts fol ow, and if we have remembered that, they have never failed to appear. The bet er we have remembered it, the larger they have been.8

Merck, in fact, epitomizes the ideological nature—the pragmatic idealism—of highly visionary companies. Our research showed that a fundamental element in the “ticking clock” of a visionary company is a core ideology—core values and sense of purpose beyond just making money—that guides and inspires people throughout the organization and remains relatively xed for long periods of time. In this chapter, we describe, support, and il ustrate this crucial element that exists paradoxical y with the fact that visionary companies are also highly e ective profit-making enterprises.

Now, you might be thinking: “Of course it’s easy for a company like Merck to proclaim and pursue inspirational ideals—Merck makes drugs that do in fact save lives, cure disease, and relieve su ering.” Good point, and we agree. But in contrast to its comparison company, P zer—a company in the same industry, a company that also makes drugs that save lives, cure diseases, and relieve su ering—we found Merck to have been more ideological y driven.

Whereas Merck titled its history Values and Visions, P zer titled its history, P zer . . An Informal History. Whereas Merck has explicitly and prominently articulated a consistent set of high ideals for four generations, we found no evidence of similar discussions at P zer until the late 1980s. Nor did we nd at P zer any incident analogous to the Mectizan or streptomycin decisions at Merck.

Whereas George Merck I explicitly took a paradoxical view of pro ts (“medicine is for the patient. . the pro ts fol ow”), John McKeen, president at P zer during the same era as George Merck I , displayed a somewhat more lopsided perspective: “So far as is

displayed a somewhat more lopsided perspective: “So far as is humanly possible,” he said, “we aim to get pro t out of everything w e do.”9 According to an article in Forbes, McKeen believed that

“idle money was a sinful y non-productive asset.” While Merck hoarded cash for investment in new research and drug development e orts, McKeen launched a frenetic acquisition binge, purchasing fourteen companies in four years and diversifying into such areas as farm products, women’s toiletries, shaving products, and paint pigments. Why? To make more money, regardless of the line of business. “I would rather make 5% on $1 bil ion in sales than 10%

on $300 mil ion [in ethical drugs],” said McKeen. We don’t mean to quibble over strategies here (diversi cation via acquisition versus focus and innovation via R&D); but the evidence suggests that P zer during this era displayed more of a purely pragmatic pro t orientation than Merck.

Of course, a company like Merck could af ord to have high ideals.

As of 1925, when George Merck I took over from his father, the company already had a track record of substantial business success and a sizable nancial cushion. Might it be, therefore, that having high ideals is merely a luxury for companies such as Merck that are so successful that they can a ord to proclaim an ideology? No. We found that high ideals—a core ideology—often existed in the visionary companies not just when they were successful, but also when they were struggling just to survive. Consider the fol owing two examples: Sony at its founding and Ford during the 1983

turnaround crisis.

When Masaru Ibuka started Sony among the ruins of a defeated and devastated 1945 Japan, he rented an abandoned telephone operator's room in the hol ow remnants of a bombed and burned-out old department store in downtown Tokyo and, with seven employees and $1,600 of personal savings, began work.10 But what should be his rst priorities? What should he do rst among the depressing ruins? Generate cash ow? Figure out what business to be in? Launch products? Develop customers?

Ibuka did indeed concentrate on these tasks (recal from Chapter 2 the failed rice cooker, sweetened bean-paste soup, and crude

2 the failed rice cooker, sweetened bean-paste soup, and crude heating pads). But he also did something else—something remarkable for an entrepreneur wrestling with the problems of day-to-day survival: He codi ed an ideology for his newly founded company. On May 7, 1946, less than ten months after moving to Tokyo—and long before turning a positive cash ow —he created a

"prospectus" for the company that included the fol owing items (this is a partial translation, as the actual document is quite long):11

If it were possible to establish conditions where persons could become united with a rm spirit of teamwork and exercise to their heart's desire their technological capacity . . then such an organization could bring untold pleasure and untold bene ts. .

Those of like minds have natural y come together to embark on these ideals.

PURPOSES OF INCORPORATION

• To establish a place of work where engineers can feel the joy of technological innovation, be aware of their mission to society, and work to their heart’s content.

• To pursue dynamic activities in technology and production for the reconstruction of Japan and the elevation of the nation’s culture.

• To apply advanced technology to the life of the general public.

MANAGEMENT GUIDELINES

• We shal eliminate any unfair pro t-seeking, persistently emphasize substantial and essential work, and not merely pursue growth.

• We shal welcome technical di culties and focus on highly sophisticated technical products that have great usefulness in society, regardless of the quantity involved.

society, regardless of the quantity involved.

• We shal place our main emphasis on ability, performance, and personal character so that each individual can show the best in ability and skil .

Stop and think about this for a minute. How many entrepreneurial companies do you know that included such idealistic sentiments in their founding documents? How many corporate founders have you come across that think about such grand values and sense of purpose when simply struggling to bring in enough cash to keep the doors open? How many companies have you encountered that articulate a clear ideology at the start of the company, yet cannot articulate a clear idea of what products to make? (As an aside, if you’re at the early stages in the development of a company and have been put ing o articulating a corporate ideology until you’ve at ained business success, you might pause to consider the Sony example. We found that Ibuka’s ideology laid down so early in the company’s history played an important role in guiding the company’s evolution.)

In 1976, Nick Lyons observed in his book The Sony Vision that the ideals embodied in the prospectus have “been a guiding force for the company these past thirty years, modi ed only slightly as

[Sony] grew with extraordinary speed.”12 Forty years after Ibuka penned the prospectus, Sony chief executive Akio Morita rephrased the company’s ideology in a simple, elegant statement, entitled the

“Sony Pioneer Spirit”:

Sony is a pioneer and never intends to fol ow others. Through progress, Sony wants to serve the whole world. It shal be always a seeker of the unknown. . Sony has a principle of respecting and encouraging one’s ability . . and always tries to bring out the best in a person. This is the vital force of Sony.13

In contrast to Sony stands Kenwood, Sony’s comparison in the study. We at empted to obtain directly from Kenwood any and al

study. We at empted to obtain directly from Kenwood any and al documents that would describe the company’s philosophy, values, visions, and ideals. Kenwood responded that it had no such documents and sent merely a set of recent and fairly standard annual reports. We tried to obtain external writings on this subject, but found none. Perhaps Kenwood has had a consistent, pervasive ideology that, like Sony’s, traces back to the moment of the company’s conception, but we could nd no evidence of it.

Whereas we had no trouble locating numerous books, articles, and documents—both internal and external—about Sony’s ideology, we could find almost nothing similar published about Kenwood.

Furthermore, we found substantial evidence of direct translations of Sony’s ideology into tangible characteristics and practices, such as a highly individualistic culture and decentralized structure (relative to other Japanese companies) and product development practices that explicitly eschew traditional market research. “Our plan is to lead the market with new products, rather than ask them what kind of products they want. . Instead of doing a lot of market research, we. .re ne a product. .and try to create a

market for it by educating and communicating with the public.”14 And from these ideological y driven tangible practices came a series of decisions to launch products for which there was no proven demand, including the rst magnetic tape recorder in Japan (1950), the rst al -

transistor radio (1955), the rst pocket-sized radio (1957), the rst home-use videotape recorder (1964), and the Sony Walkman (1979).15

Certainly, Sony wanted successful products; it didn’t want to pioneer itself into bankruptcy. Nonetheless, the ideals of the “Sony Pioneer Spirit” trace their roots to the very early days of the company, long before it became a pro table venture, and have remained largely intact as a guiding force for nearly half a century.

Yes, Sony made crude heating pads and sweetened bean-paste soup to keep itself alive (pragmatism), but it always dreamed and pushed toward making pioneering contributions (idealism).

Now let’s look at a company at the other end of the spectrum—an aging giant in a desperate turnaround crisis. In the early 1980s,

aging giant in a desperate turnaround crisis. In the early 1980s, Ford Motor Company found itself reeling, bleeding red ink from wounds in icted during the repeated thrashings it took from Japanese competitors. Pause for a moment and put yourself in the shoes of the Ford senior management team —a management team atop a company suf ering from a $3.3 bil ion net loss (43 percent of its net worth) in three years. What should they do? What should be their highest priorities?

Natural y, the Ford team threw itself into a frenzy of emergency measures to stop the bleeding and keep the company breathing. But it also did something else—something unusual for a team facing such a tremendous crisis: It paused to clarify its guiding principles.

According to Robert Schook (who researched and wrote a book on the 1980s Ford turnaround), “The objective was to create a proclamation that clearly stated what the Ford Motor Company stood for. At times the discussions . . sounded more like a col ege class in philosophy than a

business meeting.”16 (We found no evidence that General Motors, facing the same industry onslaught and also losing money, paused like Ford did in 1983 to have fundamental philosophical discussions.) Out of this process came Ford’s “Mission, Values, Guiding Principles (MVGP).” Former Ford CEO Don Petersen commented:

There was a great deal of talk about the sequence of the three P’s—people, products, and pro ts. It was decided that people should absolutely come rst [products second and pro ts third].17

If you’re familiar with Ford’s history, you may be skeptical of this ordering. Don’t get us wrong here. We don’t see Ford as exemplary throughout its entire history in labor relations and product quality.

The bloody, brutal brawls with labor in the 1930s and the exploding Ford Pinto of the 1970s certainly leave Ford with a spot y record. Nonetheless, we found evidence that the Ford team’s deliberations about the “three P’s” reached back in time to

deliberations about the “three P’s” reached back in time to reawaken an ideology espoused by Henry Ford in the early days of the company. The 1980s turnaround team wasn’t inventing completely new ideals, but was, in part, breathing life back into ones that had long lain dormant. In describing the relationship between the “three P’s” in the early days of the company, Henry Ford commented in 1916:

I don’t believe we should make such an awful pro t on our cars.

A reasonable pro t is right, but not too much. I hold that it is better to sel a large number of cars at a reasonably smal pro t. . I hold this because it enables a larger number of people to buy and enjoy the use of a car and because it gives a larger number of men employment at good wages. Those are the two aims I have in life.18

Idealistic prat le? Cynical pronouncements to pacify the public?

Perhaps. But keep in mind that Ford transformed the American way of life for 15 mil ion families with the a ordable Model T (the

“people’s car”), in large part by reducing prices by 58 percent from 1908 to 1916. At the time, Ford had more orders than it could l and could have raised prices. Mr. Ford kept lowering them anyway, even in the face of a shareholder suit against the practice.19 And, during the same era, he boldly introduced the $5 day for workers which, at roughly twice the standard industry rate, shocked and outraged the industrial world (as described by Robert Lacey in Ford):

T h e Wal Street Journal accused Henry Ford of “economic blunders if not crimes” which would soon “return to plague him and the industry he represents as wel as organized society.” In a naive wish for social improvement, declared the newspaper, Ford had injected “spiritual principles into a eld where they do not belong”—a heinous crime—and captains of industry lined up to condemn “the most foolish thing ever at empted in

lined up to condemn “the most foolish thing ever at empted in the industrial world.”20

As an interesting aside, Henry Ford apparently embarked upon

“the most foolish thing ever at empted in the industrial world”

partly under the in uence of the highly idealistic philosopher Ralph

Waldo Emerson and, in particular, his essay

“Compensation.”21 However, not being oppressed by the “Tyranny of the OR,” Ford also embarked on this path with ful recognition that workers earning $5 a day combined with lower car prices would lead to greater sales of Model Ts. Pragmatism? Idealism?

Yes.

Again, we don’t want to paint Ford as being in the same ideological league as Merck and Sony; it has a much spot ier historical record on this dimension. But compared to GM, Ford has been much more ideological y guided. In fact, GM presents a fascinating case of how a clock-building

orientation alone is not enough. Alfred P. Sloan, chief architect of GM, clearly had a strong clock-building orientation. But Sloan's clock had no soul; Sloan's clock was a cold, impersonal, inhuman, pure business, and total y pragmatic clock. Peter F. Drucker, who careful y studied GM and Alfred Sloan for his landmark book Concept of the Corporation, summed it up this way:

The failure of GM as an institution—for failure it is—is to a large extent the result of. . an at itude that one might cal

"technocratic" . . best exemplified in Alfred P. Sloan's own book, My Years with General Motors. . It focuses exclusively on policies, business decisions, and structure. . It is perhaps the most impersonal book of memoirs ever writ en—and this was clearly intentional. Sloan's book . . knows only one dimension: that of managing a business so that it can produce e ectively, provide jobs, create markets and sales, and generate pro ts.

Business in the community; business as a life rather than a livelihood; business as a neighbor; and business as a power

livelihood; business as a neighbor; and business as a power center—these are al absent in Sloan's world.22

In his book Management: Tasks, Responsibilities, Practices, Drucker added, "General Motors has stayed with Sloan's legacy. And in Sloan's terms. . it has succeeded admirably. But it has also failed abysmal y."23

CORE IDEOLOGY: EXPLODING THE PROFIT MYTH

Merck, Sony, and Ford each o er a di erent slice of a general pat ern: the existence of a core ideology as a primary element in t h e historical development of visionary companies. Like the fundamental ideals of a great nation, church, school, or any other enduring institution, core ideology in a visionary company is a set of basic precepts that plant a xed stake in the ground: "This is who we are; this is what we stand for; this is what we're al about."

Like the guiding principles embodied in the American Declaration of Independence (“We hold these truths to be self-evident. .”) and echoed eighty-seven years later in the Get ysburg Address (“a . .

nation, conceived in Liberty, and dedicated to the proposition that al men are created equal”), core ideology is so fundamental to the institution that it changes seldom, if ever.

In some cases, like Sony, the ideology derives from the founding roots. In some cases, like Merck, it comes from the second generation. In other cases, like Ford, the ideology went dormant and was rekindled in later years. But in nearly al cases, we found evidence of a core ideology that existed not merely as words but as a vital shaping force. We wil soon more thoroughly discuss the nuances of core ideology and its two component parts, core values and purpose, but rst we wil turn to explore one of our most intriguing findings.

Contrary to business school doctrine, we did not nd “maximizing shareholder wealth” or “pro t maximization” as the dominant driving force or primary objective through the history of most of the

driving force or primary objective through the history of most of the visionary companies. They have tended to pursue a cluster of objectives, of which making money is only one—and not necessarily the primary one. Indeed, for many of the visionary companies, business has historical y been more than an economic activity, more than just a way to make money. Through the history of most of the visionary companies we saw a core ideology that transcended purely economic considerations. And—this is the key point—they have had core ideology to a greater degree than the comparison companies in our study.

A detailed pair-by-pair analysis showed that the visionary companies have general y been more ideological y driven and less purely pro t-driven than the comparison companies in seventeen out of eighteen pairs. (See Table A.4 in Appendix 3.) This is one of the clearest di erences we found between the visionary and comparison companies.

Of course, we’re not saying that the visionary companies have been uninterested in pro tability or long-term shareholder wealth (notice that we say that they are “more than” economic entities, not

“other than”). Yes, they pursue pro ts. And, yes, they pursue broader, more meaningful ideals. Pro t maximization does not rule, but the visionary companies pursue their aims pro tably. They do both.

PROFITABILITY is a necessary condition for existence and a means to more important ends, but it is not the end in itself for many of the visionary companies. Pro t is like oxygen, food, water, and blood for the body; they are not the point of life, but without them, there is no life.

Here are a few key examples of how the visionary companies embraced the “Genius of the AND”—ideology AND pro ts—to a

embraced the “Genius of the AND”—ideology AND pro ts—to a greater degree than their comparison counterparts across a range of industries in our study.

Hewlett-Packard Versus Texas Instruments

Put yourself in the shoes of David Packard on March 8, 1960. Your company sold stock to the public for the rst time three years earlier. The electronics revolution has launched your company into an explosive growth trajectory. You’ve been wrestling with al the chal enges of rapid growth, but you’re particularly concerned about HP’s ability to develop highly competent, homegrown managerial talent (you believe in a promote-from-within policy as a key element of your ticking clock). You’ve therefore initiated an HP

management development program—a program that you consider central to the long-term health of the organization—and you’re about to give a kicko talk to the group of HP people responsible for that program. You want to imprint on their minds a key message to use as a guiding theme as they develop programs to socialize and train generation after generation of HP managers.

What should be the theme of your talk? What message do you want these trainers to remember?

After a short preliminary welcome, Packard began his talk: I want to discuss why [emphasis his] a company exists in the rst place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we cal a company so they are able to accomplish something col ectively that they could not accomplish separately—they make a contribution to society, a phrase which sounds trite but is fundamental. . You can look around [in the general business world] and stil see people who

around [in the general business world] and stil see people who are interested in money and nothing else, but the underlying drives come largely from a desire to do something else—to make a product—to give a service—general y to do something which is of value. So with that in mind, let us discuss why the Hewlet -Packard Company exists. . The real reason for our existence is that we provide something which is unique [that makes a contribution].24

Those who worked with David Packard describe his management style as practical, no-nonsense, with a "let's rol up our sleeves and get down to work" at itude. He studied to be an engineer in col ege, not a philosophy professor. Nonetheless, we see David Packard ruminating about what we can best describe as corporate existentialism, pondering about the philosophical, noneconomic

"reasons for being" of his company. "Pro t," according to Packard,

"is not the proper end and aim of management—it is what makes al of the proper ends and aims possible."25

David Packard perfectly exempli ed the "Genius of the AND" by explicitly embracing the tension between pro t and purpose beyond pro t. On the one hand, he made it crystal clear that the Hewlet -Packard Company should be

managed “ rst and foremost to make a contribution to society”26 and that “our main task is to design, develop, and manufacture the nest electronic [equipment]

for the advancement of science and the welfare of humanity.”27 Yet, o n the other hand, he made it equal y clear that, because pro t enables HP to pursue these broader aims, “anyone who cannot accept [pro t] as one of the most important [objectives] of this company has no place either now or in the future on the management team of this company.”28

Furthermore, he institutionalized this view, passing it along to John Young (HP chief executive from 1976 to 1992), who commented to us in an interview:

Maximizing shareholder wealth has always been way down the

Maximizing shareholder wealth has always been way down the list. Yes, pro t is a cornerstone of what we do—it is a measure of our contribution and a means of self- nanced growth—but it has never been the point in and of itself. The point, in fact, is to win, and winning is judged in the eyes of the customer and by doing something you can be proud of. There is a symmetry of logic in this. If we provide real satisfaction to real customers —

we wil be profitable.29

In comparing Texas Instruments with Hewlet -Packard, we reviewed over forty historical articles and case studies and could nd not one single statement that TI exists for reasons beyond making money. Such a statement might exist, but we found no evidence of it. Instead, TI appeared to de ne itself almost exclusively in terms of size, growth, and pro tability—but very lit le on what David Packard cal ed “the why of business.” In 1949, TI’s president Pat Haggarty issued his “dictum” for TI: “We are a good lit le company. Now we must become a good big company.”30 This obsessive focus on size and growth—and very lit le on “the why”—has persisted throughout TI’s history. We noticed, for example, that al of TI’s driving corporate goals, unlike HP’s, were oriented purely to financial growth:
Texas Instruments Primary Corporate Goals

• Hit sales of $200 mil ion (set in 1949).31

• Hit sales of $1 bil ion (set in 1961).32

• Hit sales of $3 bil ion (set in 1966).33

• Hit sales of $10 bil ion (set in 1973).34

• Hit sales of $15 bil ion (set in 1980).35

To be fair, we found similar nancial goals in a few of the visionary companies, in particular Wal-Mart. But TI, unlike most of the visionary companies—and certainly unlike HP—appeared to

the visionary companies—and certainly unlike HP—appeared to make nancial sales goals the driving force and put much less emphasis on the "why" of it al . For TI, bigger was bet er, period—

even if the products were low-quality or made no technical contribution. For HP, bigger was bet er only within the context of making a contribution.36 TI, for instance, moved into making cheap pocket calculators and $10 throwaway digital watches in an explicit

"more is bet er" strategy in the 1970s; confronted with the same market opportunities, HP explicitly chose not to go after the cheap low end precisely because it o ered no opportunity for technical contribution.37

Johnson & Johnson Versus Bristol-Myers

Johnson & Johnson, like HP, explicitly speaks rst to ideals beyond pro t, and then emphasizes the importance of pro t within the context of those ideals. When Robert W. Johnson founded Johnson

& Johnson in 1886, he did so with the idealistic aim "to al eviate pain and disease."38 By 1908, he had expanded this into a business ideology that placed service to customers and concern for employees ahead of returns to shareholders.39 Fred Kilmer, one of J&J's early research managers, explained in the early 1900s how this philosophy framed the role of the research department: The department is not conducted in any narrow,

commercial spirit . . and not kept going for the purpose of paying dividends or solely for the bene t of Johnson & Johnson, but with a view to aiding the progress of the art of healing.40

In 1935, Robert W. Johnson, Jr., echoed these sentiments in a philosophy that he cal ed “enlightened self-interest,” wherein

“service to customers [italics his] comes first . . service to employees and management second, and . . service to stockholders last.”41

Later (in 1943), he added service to community to the list (stil ahead of service to shareholders) and codi ed the J&J ideology in

ahead of service to shareholders) and codi ed the J&J ideology in

“Our Credo,” printed on old-style parchment and captioned in the same let ering used in the American Declaration of Independence.

“When these things have been done,” he wrote, “the stockholders should receive a fair return.”42 Although J&J has periodical y reviewed and slightly revised the wording of the credo since 1943, the essential ideology —the hierarchy of responsibilities descending from customers down to shareholders and the explicit emphasis on fair return rather than maximum return—has remained consistent throughout the history of the credo.43

Our Credo

WE BELIEVE THAT OUR FIRST RESPONSIBILITY IS TO THE

DOCTORS, NURSES, HOSPITALS, MOTHERS, AND ALL

OTHERS WHO USE OUR PRODUCTS. OUR PRODUCTS MUST

ALWAYS BE OF THE HIGHEST QUALITY. WE MUST

CONSTANTLY STRIVE TO REDUCE THE COST OF THESE

PRODUCTS. OUR ORDERS MUST BE PROMPTLY AND

ACCURATELY FILLED. OUR DEALERS MUST MAKE A FAIR PROFIT.

OUR SECOND RESPONSIBILITY IS TO THOSE WHO WORK WITH US—THE MEN AND WOMEN IN OUR PLANTS AND OFFICES. THEY MUST HAVE A SENSE OF SECURITY IN THEIR JOBS. WAGES MUST BE FAIR AND ADEQUATE, MANAGEMENT JUST, HOURS REASONABLE, AND WORKING CONDITIONS CLEAN AND ORDERLY. EMPLOYEES SHOULD HAVE AN ORGANIZED SYSTEM FOR SUGGESTIONS AND COMPLAINTS. SUPERVISORS AND DEPARTMENT HEADS MUST BE QUALIFIED AND FAIR-MINDED. THERE MUST BE OPPORTUNITY FOR ADVANCEMENT—FOR THOSE QUALIFIED AND EACH PERSON MUST BE CONSIDERED AN INDIVIDUAL STANDING ON HIS OWN DIGNITY AND MERIT.

OUR THIRD RESPONSIBILITY IS TO OUR MANAGEMENT.

OUR THIRD RESPONSIBILITY IS TO OUR MANAGEMENT.

OUR EXECUTIVES MUST BE PERSONS OF TALENT, EDUCATION, EXPERIENCE, AND ABILITY. THEY MUST BE PERSONS OF COMMON SENSE AND FULL UNDERSTANDING.

OUR FOURTH RESPONSIBILITY IS TO THE COMMUNITIES IN

WHICH WE LIVE. WE MUST BE A GOOD CITIZEN—SUPPORT GOOD WORKS AND CHARITY, AND BEAR OUR FAIR SHARE OF TAXES.

WE MUST MAINTAIN IN GOOD ORDER THE PROPERTY WE ARE PRIVILEGED TO USE. WE MUST PARTICIPATE IN PROMOTION OF CIVIC IMPROVEMENT, HEALTH, EDUCATION AND GOOD GOVERNMENT, AND ACQUAINT THE COMMUNITY WITH OUR ACTIVITIES.

OUR FIFTH AND LAST RESPONSIBILITY IS TO OUR STOCKHOLDERS. BUSINESS MUST MAKE A SOUND PROFIT. RESERVES MUST BE CREATED, RESEARCH MUST BE CARRIED ON, ADVENTUROUS PROGRAMS DEVELOPED, AND MISTAKES PAID FOR. ADVERSE TIMES MUST BE PROVIDED FOR, ADEQUATE TAXES PAID, NEW MACHINES PURCHASED, NEW PLANTS BUILT, NEW PRODUCTS LAUNCHED, AND NEW SALES PLANS DEVELOPED. WE MUST EXPERIMENT WITH NEW IDEAS.

WHEN THESE THINGS HAVE BEEN DONE THE STOCKHOLDER SHOULD RECEIVE A FAIR RETURN. WE ARE DETERMINED WITH THE HELP OF GOD’S GRACE, TO FULFILL THESE OBLIGATIONS TO THE BEST OF OUR ABILITY.

This is the text of the original 1943 Credo as penned by R.W.

Johnson, Jr.

In the early 1980s, chief executive Jim Burke (who estimated that he spent ful y 40 percent of his time as CEO communicating the credo throughout the company)44 described the interplay between

credo throughout the company) described the interplay between the credo and profits:

Al of our management is geared to pro t on a day-to-day basis.

That's part of the business of being in business. But too often, in this and other businesses, people are inclined to think, "We'd better do this because if we don't, it's going to show up on the gures over the short-term." This document [the Credo] al ows them to say, "Wait a minute. I don't have to do that." The management has told me that they're. .interested in me operating under this set of principles, so I won't.45

At Bristol-Myers, we found a much less ideological y guided company than at Johnson & Johnson. Whereas J&J formalized and published its credo in the early 1940s and had a clear sense of its ideology dating back to the early 1900s, we found no evidence whatsoever that Bristol-Myers had anything analogous to the credo until 1987, when it published the "Bristol-Myers Pledge" (which looks suspiciously like a paraphrased version of the J&J Credo).

Nor did we nd any evidence that the pledge, once stated, became anywhere near as pervasive a guiding document in Bristol-Myers.

Whereas J&J employees spoke explicitly about the link between the credo and key decisions, we found no similar comments by Bristol-Myers employees.46

The Harvard Business School dedicated an entire case study to how J&J translated the credo into action—in organization structure, internal planning processes, compensation systems, strategic business decisions, and as a

tangible guide in times of crisis. For example, J&J used the credo as the basis for its response to the 1982 Tylenol crisis, when the deaths of seven people in the Chicago area revealed that someone—not an employee—had tampered with Tylenol bot les, lacing them with cyanide. J&J immediately removed al Tylenol capsules from the entire U.S. market—even though the deaths occurred only in the Chicago area—at an estimated cost of $100 mil ion and mounted a twenty- ve-hundred-

estimated cost of $100 mil ion and mounted a twenty- ve-hundred-person communication e ort to alert the public and deal with the problem. The Washington Post wrote of the crisis that “Johnson &

Johnson has succeeded in portraying itself to the public as a company wil ing to do what’s right, regardless of cost.”47

Within days of the Tylenol crisis, Bristol-Myers faced an almost identical problem: Excedrin tablets had been tampered with in the Denver area. Instead of recal ing al tablets from the entire U.S.

market—as J&J had done—Bristol-Myers recal ed tablets only from Colorado and did not launch a campaign to alert the public. Bristol-Myers’ chairman Richard Gelb, who described himself as “a cautious manager who likes to count things down to the last bean,” was quick to emphasize in Dun’s Business Month that the Excedrin incident would “have a negligible e ect on Bristol-Myers’

earnings.”48 J&J had a codi ed ideology in place that guided its response to the crisis (for bet er or worse), whereas the evidence suggests that Bristol-Myers lacked a similar guidepost.

Boeing Versus McDonnel Douglas

To a far greater degree than McDonnel Douglas, Boeing has made key strategic decisions in its history as much out of an idealized view of its self-identity as out of strategic pragmatism. In particular, Boeing has a long history of taking huge gambles to build bigger and more advanced aircraft. These gambles have paid o , making Boeing a highly pro table company (more pro table than McDonnel Douglas)—pragmatic decisions indeed. But

the evidence suggests that Boeing has not been fundamental y about pro t, long-run or otherwise.49 Boeing has been about pioneering aviation—

about building big, fast, advanced, bet er-performing aircraft; about pushing the envelope of aviation technology; about adventure, challenge, achievement, and contribution; about having the Right Stu . Boeing can't pursue these purposes without pro ts; but pro t is not the "why" of it al — any more than Chuck Yeager test piloted jets just for the money. Bil Al en (chief executive from 1945 to

jets just for the money. Bil Al en (chief executive from 1945 to 1968) commented on the purposes of work at Boeing: Boeing is always reaching out to tomorrow. This can only be accomplished by people who live, breathe, eat and sleep what they are doing. . [I am] associated with a large group of knowledgeable, dedicated [people] who eat, breathe, and sleep the world of aeronautics. . Man's objective should be opportunity for greater accomplishment and greater service. The greatest pleasure life has to o er is the satisfaction that ows f r o m ... participating in a di cult and constructive undertaking.50

Take, for example, Boeing's decision to make the 747. Sure, Boeing had economic motives; but it also had non nancial motives.

Boeing built the 747 as much because of its self-identity as because of its desire for pro ts—because it believed it should be on the leading edge of air transportation, period. Why do the 747?

"Because we're Boeing!" When Boeing director Crawford Greenwalt asked a member of senior management about the projected return on investment of the proposed 747, the manager told him that they'd run some studies, but couldn't recal the results. In Legend and Legacy, Robert Serling writes: "Greenwalt just put his head down on the table and mut ered, 'My God, these guys don't even know what the return-on-investment wil be on this thing.' "51

Motorola Versus Zenith

Motorola founder Paul Galvin viewed pro tability as a necessary means to pursue the company's objectives, but not the ultimate aim. Yes, he continual y pushed his engineers to drive costs down while improving quality so as to provide a pro table basis for the company. And yes, he believed that a businessperson needed to make a pro t in order to get satisfaction from his or her e orts. But he never let pro t become the primary, overriding objective of the

he never let pro t become the primary, overriding objective of the company —nor did he think it should become so for any company.52 During the 1930s Depression, Motorola—then a young, struggling company— confronted the common industry practice of misrepresenting company nancial health and product bene ts to distributors. Pressured to do the same, Paul Galvin responded that he didn't care about industry practices. "Tel them the truth," he said, " rst because it is the right thing to do and second they'l nd o ut anyway."53 Galvin's response displays once again the dual nature—the pragmatic-idealism—of many of the visionary companies in our study. They are not purely idealistic; nor are they purely pragmatic. They are both.

VISIONARY companies like Motorola don't see it as a choice between living to their values or being pragmatic; they see it as a chal enge to nd pragmatic solutions and behave consistent with their core values.

Furthermore, Paul Galvin institutionalized this paradoxical perspective at Motorola as a guiding force for future generations. In 1991, Robert W. Galvin (Paul's son and successor), wrote a series of essays to employees about "who and why we are." In thirty-one essays, he discussed the importance of creativity, renewal, total customer satisfaction, quality, ethics, innovation, and similar topics; not once did he write about maximizing pro ts, nor did he imply this was the underlying purpose—the "why" of it al .54 Consistent with the above, Motorola's o cial statement of purpose (contained in an internal publication cal ed "For Which We Stand: A Statement of Purpose, Principles, and Ethics") tied pro t and broader purpose together, with the pursuit of adequate pro t (versus maximum profit) in the supporting role:

The purpose of Motorola is to honorably serve the community by providing products and services of superior quality at a fair price to our customers; to do this so as to earn an adequate pro t which is required for the enterprise to grow, and by so doing provide the opportunity for our employees and shareholders to achieve their reasonable personal objectives.

[emphasis ours]55

At Zenith, in contrast, founder Commander Eugene F. McDonald did not pass along an enduring ideology to the company. Zenith's purpose during McDonald's era appears to have been primarily about being a toy and platform for its founder. After McDonald's death, the company languished with lit le guidance or inspiration of any kind, and defaulted to a classic pro ts-only perspective. In reviewing articles on Motorola and Zenith, we noticed that the articles on Motorola constantly emphasized "intangible" aspects of the company—its informality, egalitarianism, technological drive, and optimistic ever-forward feeling—whereas the articles on Zenith after McDonald's death put more emphasis on nancial condition, market share, and other purely nancial items. We found no document similar to Motorola's "For Which We Stand" at Zenith. In fact, we found no evidence of any signi cant ideology beyond the quest for increased market share and pro t maximization in Zenith after McDonald's death in 1958.

Marriott Versus Howard Johnson

Marriot Corporation, like Motorola and HP, explicitly embraced the paradox of pragmatic idealism. When asked if he'd founded Marriot Corporation to make a mil ion dol ars or to build an empire, J. Wil ard Marriot , Sr., responded:

No, not at al . I just had three general ideas in mind, al equal y important. One was to render a friendly service to our guests.

important. One was to render a friendly service to our guests.

The second was to provide quality food at a fair price. The third was to work as hard as I could, day and night, to make a pro t.

. . I wanted to reap the rewards of growth: jobs for more employees, money to take care of my family and to contribute to good causes.56 . . The service business is very rewarding. It makes a big contribution to society. A good meal away from home, a good bed, friendly treatment. . It’s important to make people away from home feel that they’re among friends and are real y wanted.57

And, as in the examples previously cited, Marriot institutionalized this perspective so that it would remain alive long after his death. He initiated elaborate employee screening and indoctrination processes to reinforce the ideology of employees as number one and customers as guests and created management development programs to ensure the continual availability of Marriot -indoctrinated management. He careful y groomed his successor and son, J. Wil ard Marriot , Jr., not only for the nuts and bolts of running the corporation, but also to carry on its values. A 1991 article commented: “With a certain solemnity, Marriot executives fol ow the ‘Guideposts to Management’ that J. Wil ard put in a let er to his son when he became executive-vice president in 1964.”58 We found a copy of that lengthy let er and noticed remarkable similarity between those guideposts and those espoused by his son two decades later (see below).

Consistent with the guiding principles laid down in the company years ago by his father, Marriot , Jr., commented that the motivating factor in the company “is not the money,” but rather the sense of pride and accomplishment that comes from doing its work real y wel .61 He pointed out that by taking superb care of employees and providing outstanding customer value (treat them as guests),

“at ractive” (not “maximum”) shareholder returns wil fol ow as a natural result.62

1964 J. Wil ard Marriot , Sr.59

1984 J. Wil ard Marriot , Jr.60

People are #1—their development,

We are in the people business . . teach

loyalty, interest, team spirit. [Their

them and help them and care about

development]

is

your

prime

them. Give them a fair shake. Give

responsibility. . . . See the good in

them skil s; help them succeed; make

people and try to develop those

winners out of them.

qualities.

Delegate and hold accountable for

Get good people and expect them to

results. If. . an employee is obviously

perform. Terminate them quickly and

incapable of the job, nd a job he can

fairly if you make the wrong choice.

do or terminate now. Don’t wait.

Manage your time . . make every

Work hard, but have fun. It’s fun to do

minute on the job count. . Keep a sense

things and get things done. The key is

of humor. Make the business fun for

to keep that going.

you and others.

Although the evidence suggests that Howard Johnson, Sr., also had an ideology (with emphasis on consistency and quality), we found n o evidence that he passed this ideology along to his son (and successor) or to otherwise instil his ideals into the company as an enduring set of principles. There is no record of ideological coaching from rst generation to second; nor is there any record of the deliberate development of ideological screening and indoctrination processes like Marriot ’s. By the mid-1970s, Howard Johnson, Jr., was actively running the company with a one-sided, purely nancial focus (sales growth and return on investment) with lit le or no emphasis on customers or employees. According to three separate articles (two in Business Week and one in Forbes), Howard Johnson had squeezed captive turnpike customers with high prices for bland food, shoddy accommodations, and slow, sul en service.63 Johnson, Jr., eventual y sold the company to a

sul en service. Johnson, Jr., eventual y sold the company to a British investor for a hefty eighteen times earnings.64

Philip Morris Versus R.J. Reynolds

At Philip Morris (relative to R.J. Reynolds), we found evidence of the company framing its work within the context of an ideology rather than just maximizing shareholder wealth. Ross Mil hiser, vice chairman of Philip Morris in 1979, said:

I love cigaret es. It’s one of the things that makes life real y worth living. . Cigaret es supply some desire, some [aspect] of t h e fundamental human equation. The human equation is always trying to balance itself, and cigaret es play some part in that.65

Ideology or self-delusion? Merely good PR? It’s impossible to tel .

But we saw in Philip Morris an esprit de corps and sense of common purpose that we simply did not see over the last thirty years at R.J. Reynolds. Philip Morris executives have appeared far more passionate about their cigaret es than the executives at R.J.

Reynolds. Philip Morris executives express much more de ance in their prosmoking ideology, whereas the RJR folks after about 1960

did not seem to care much about the products except as a way to make money. According to R.J. Reynolds’ chairman in 1971, if the company could make more money for shareholders by get ing out of cigaret es, then ne; unlike Mil hiser, he had no ideological al egiance to tobacco.66

The Philip Morris executives, in contrast, framed the ght over cigaret es in almost self-righteous moral overtones: We have a right to smoke; it’s a mat er of freedom of choice. Don’t take away our cigaret es. Don’t tread on me! In our review of articles on Philip Morris, we noticed numerous photos of executives taking a rebel ious pose—cigaret es in hand—glaring into the camera with a manner that conveys “Don’t even think of asking me to put down

manner that conveys “Don’t even think of asking me to put down this cigaret e!” A Fortune magazine article noted: An almost de ant smoking culture permeates the executive oors, whose denizens yank from the pockets ip-top boxes. . .

light up . . and then toss their packs on the desk or table for al to see.67

It’s as if they actual y see themselves as the lone, ercely independent cowboy depicted in their al -pervasive Marlboro bil boards. An ex-Philip Morris employee described working at Philip Morris as “the cult of

smoking” and told us that the company forced upon her and her co-workers boxes of cigaret es to take home with their paychecks. A Philip Morris board member told us (while ngering a box of lter-tips), “I real y love being on the board of Philip Morris. It’s a real y great company; I mean a great company. It’s like being part of something real y special—it’s a company that stands for something and being part of it is something you can real y be proud of.”68 A Forbes article said of Philip Morris chairman Joseph Cul man in 1971:

A good many people resent [Cul man] for his aggressive defense of cigaret e smoking. Instead of apologizing for cigaret es, [he]

points to the “bene cial e ects of smoking” in the area of mental health.69

Please don’t misinterpret us; we don’t see Philip Morris as working altruistical y for the good of humankind. The ideology at Philip Morris relates primarily to personal freedom of choice, individual initiative and hard work, merit-based opportunity, winning, and continuous self-improvement—earning the pride that comes from simply doing business extraordinarily wel and ever bet er for its own sake. Michael Miles, who became Philip Morris chief executive in 1991 and whom Fortune magazine described as

“a business junkie . . pragmatic, ruthless, focused . . cold-

“a business junkie . . pragmatic, ruthless, focused . . cold-blooded,”70 who “thinks about business every minute of his life,”71

commented: “I see nothing moral y wrong with the [tobacco]

business. . I see nothing wrong with sel ing people products they don’t need.”72 These are not particularly “soft” or “humanistic”

values. And cigaret es, after al , don’t cure river blindness.

But—and this may surprise you (it surprised us)—we found that Philip Morris shares with Merck an esprit de corps that is linked to a strong core ideology. To be sure, Philip Morris’ ideology di ers dramatical y from

Merck's, but both companies stand above their comparisons in the study in the extent to which they are ideological y guided. Along this key dimension, Philip Morris has had more in common with Merck over the past forty years73 than it has had in common with R.J. Reynolds, and Merck has had more in common with Philip Morris than it has had in common with Pfizer.

IS THERE A "RIGHT" IDEOLOGY?

The fact that both Merck and Philip Morris—companies at opposite ends of the spectrum in terms of what their products do to people

—show up as visionary companies guided by strong, yet radical y di erent ideologies, raises some interesting questions. Is there a

"right" core ideology for being a visionary company? Does the content of the ideology mat er? Are there any common elements or prevalent pat erns across the core ideologies in the visionary companies?

We compiled in Table 3.1 the core ideologies of the visionary companies in our study and found that, although certain themes show up in a number of the visionary companies (such as contribution, integrity, respect for the individual employee, service to the customer, being on the creative or leading edge, or responsibility to the community), no single item shows up consistently across al the visionary companies.

• Some companies, such as Johnson & Johnson and Wal-Mart,

• Some companies, such as Johnson & Johnson and Wal-Mart, made their customers central to their ideology; others, such as Sony and Ford, did not.

• Some companies, such as HP and Marriot , made concern for their employees central to their ideologies; others, such as Nordstrom and Disney, did not.

• Some companies, such as Ford and Disney, made their products or services central to their core ideology; others, such as IBM and Citicorp, did not.

• Some companies, such as Sony and Boeing, made audacious risk taking central to their ideology; others, such as HP and Nordstrom, did not.

• Some companies, such as Motorola and 3M, made innovation central to their ideology; others, such as P&G and American Express, did not.

IN short, we did not nd any speci c ideological content essential to being a visionary company. Our research indicates that the authenticity of the ideology and the extent to which a company at ains consistent alignment with the ideology counts more than the content of the ideology.

In other words, it doesn't mat er whether or not you like or agree with the Philip Morris ideology—not unless you work for Philip Morris. Nor does it mat er whether outsiders agree with Merck's ideology, or Marriot 's, or Motorola's, or Disney's, or HP's. We concluded that the critical issue is not whether a company has the

"right" core ideology or a "likable" core ideology but rather whether it has a core ideology—likable or not—that gives guidance and inspiration to people inside that company.

Table 3.1

Core Ideologies in the Visionary Companies

3M74

• Innovation; "Thou shalt not kil

a new product idea"

• Absolute integrity

• Respect for individual initiative

and personal growth

• Tolerance for honest mistakes

• Product quality and reliability

• “Our real business is solving problems”

American Express[75]

• Heroic customer service

• Worldwide reliability of services

• Encouragement of individual initiative

Boeing[76]

• Being on the leading edge of aeronautics; being pioneers

• Tackling huge chal enges and risks

• Product safety and quality

• Integrity and ethical business

• To “eat, breathe, and sleep the world of aeronautics”

• Expansionism—of size, of

Citicorp[77]

services o ered, of geographic presence

• Being out front—such as biggest, best, most innovative, most profitable

•

Autonomy and entrepreneurship (via decentralization)

• Meritocracy

• Aggressiveness and self-confidence

Ford78

• People as the source of our strength

• Products as the “end result of our ef orts” (we are about cars)

• Pro ts as a necessary means

and measure for our success

• Basic honesty and integrity

(NOTE: This is the order from 1980s Ford MVGP document. At di erent points in Ford's history, the order has varied.)

• Improving the quality of life

General Electric[79] through technology and innovation

• Interdependent balance between responsibility to customers, employees, society, and shareholders (no clear hierarchy)

• Individual responsibility and opportunity

• Honesty and integrity

• Technical contribution to elds in which we participate (“We exist as a corporation to make a contribution”)

• Respect and opportunity for HP people, including the opportunity to share in the success of the enterprise

• Contribution and responsibility to the communities in which we operate

• A ordable quality for HP customers

• Pro t and growth as a means to make al of the other values and objectives possible

Hewlet -Packard80

IBM81

• Give ful consideration to the

individual employee

• Spend a lot of time making

• Spend a lot of time making customers happy

• Go the last mile to do things

right; seek superiority in al we

undertake

Johnson & Johnson82

• The company exists “to

al eviate pain and disease”

• “We have a hierarchy of

responsibilities: customers rst,

employees second, society at

large third, and shareholders

fourth”

(see

the

credo

reproduced elsewhere in this

book)

• Individual opportunity and reward based on merit

• Decentralization = Creativity = Productivity

• Friendly service & excel ent value (customers are guests);

Marriot 83

“make people away from home feel that they’re among friends and real y wanted”

• People are number 1—treat them wel , expect a lot, and the rest wil fol ow

• Work hard, yet keep it fun

• Continual self-improvement

• Overcoming adversity to build character

• “We are in the business of preserving and improving

Merck[84]

human life. Al of our actions must be measured by our success in achieving this goal."

• Honesty and integrity

• Corporate social responsibility

• Science-based innovation, not imitation

• Unequivocal excel ence in al aspects of the company

• Pro t, but pro t from work that benefits humanity

• The company exists "to honorably serve the community

Motorola[85]

by providing products and services of superior quality at a fair price"

• Continuous self-renewal

• Tapping the "latent creative

power within us”

• Continual improvement in al that the company does—in ideas, in quality, in customer satisfaction

• Treat each employee with dignity, as an individual

• Honesty, integrity, and ethics in al aspects of business

Nordstrom86

• Service to the customer above al else

• Hard work and productivity

• Continuous improvement, never being satisfied

• Excel ence in reputation, being

part of something special

• The right to personal freedom

of choice (to smoke, to buy

Philip Morris87

whatever one wants) is worth

defending

• Winning—being the best and

beating others

•

Encouraging

individual

initiative

• Opportunity to achieve based

on merit, not gender, race, or

class

• Hard work and continuous self-

improvement

Procter & Gamble88

• Product excel ence

• Continuous self-improvement

• Honesty and fairness

• Respect and concern for the individual

• To experience the sheer joy that comes from the advancement, Sony89
application, and innovation of technology that bene ts the general public

• To elevate the Japanese culture and national status

• Being a pioneer—not fol owing others, but doing the impossible

• Respecting and encouraging e a c h individual's ability and creativity

• "We exist to provide value to o ur customers"—to make their Wal-Mart90

lives bet er via lower prices and

greater selection; al else is

secondary

• Swim upstream, buck

conventional wisdom

• Be in partnership with

employees

•

Work

with

passion,

•

Work

with

passion,

commitment, and enthusiasm

• Run lean

• Pursue ever-higher goals

Walt Disney91

• No cynicism al owed

• Fanatical at ention to

consistency and detail

• Continuous progress via

creativity,

dreams,

and

imagination

• Fanatical control and

preservation of Disney’s “magic”

image

• “To bring happiness to

mil ions”

and to celebrate,

nurture,

and

promulgate

“wholesome American values.”

* This table presents the most historical y consistent ideology for each of the visionary companies in our study. We did not merely paraphrase the company’s most recent values, mission, vision, or purpose statement (if it had one) and we never relied on only one source; we looked for historical consistency through multiple generations of chief executives.

Words or Deeds?

How can we be sure that the core ideologies of highly visionary companies represent more than just a bunch of nice-sounding platitudes—words with no bite, words meant merely to pacify, manipulate, or mislead? We have two answers. First, social

manipulate, or mislead? We have two answers. First, social psychology research strongly indicates that when people publicly espouse a particular point of view, they become much more likely to behave consistent with that point of view even if they did not previously hold that point of view.92 In other words, the very act of stating a core ideology (which the visionary companies have done to a far greater degree than the comparison companies) in uences behavior toward consistency with that ideology.

Second—and more important—the visionary companies don't merely declare an ideology; they also take steps to make the ideology pervasive throughout the organization and transcend any individual leader. As we'l describe in subsequent chapters:

• The visionary companies more thoroughly indoctrinate employees into a core ideology than the comparison companies, creating cultures so strong that they are almost cult-like around the ideology.

• The visionary companies more careful y nurture and select senior management based on t with a core ideology than the comparison companies.

• The visionary companies at ain more consistent alignment with a core ideology—in such aspects as goals, strategy, tactics, and organization design—than the comparison companies.

Certainly, the visionary companies have not always found it easy to maintain and live to their ideologies. Jack Welch of GE described the di culty of living with the tension between pragmatism and idealism, or what he cal s "numbers and values": Numbers and values. We don't have the nal answer here—at least I don't. People who make the numbers and share our values go onward and upward. People who miss the numbers and share our

values get a second chance. People with no values and no numbers—easy cal . The problem is with those who

and no numbers—easy cal . The problem is with those who make the numbers but don’t share the values. . We try to persuade them; we wrestle with them; we agonize over these people.93

In fact, we did not nd that the visionary companies have always been perfect exemplars of their ideologies. GE, for example, had a number of ethical and legal transgressions in the 1950s and 1960s, including col usion in a scandalous bid-rigging scheme with several utility companies in 1955. In 1991, P&G resorted to an insidious ef ort to seize Cincinnati phone records in an at empt to track down (and presumably punish) internal sources who spoke to a Wal Street Journal reporter94—a clear breach of its own highly touted value of “respect for the individual.” Even Johnson & Johnson, with its famous credo, has struggled at times to keep its ideology alive and operating as a shaping force. In 1979, thirty-six years after Robert W. Johnson wrote the credo, J&J put itself through an extensive soul-search process with respect to the credo. According to then-chief executive Jim Burke:

People like my predecessors believed in the Credo with a passion, but the operating managers [in 1979] were not universal y commit ed to it. . So I cal ed a meeting of some 20

key executives and chal enged them. I said, “Here’s the Credo. If we’re not going to live by it, let’s tear it o the wal . . We either ought to commit to it or get rid of it.” . . By the end of the session, the managers had gained a great deal of understanding about and enthusiasm for the beliefs in the Credo. Subsequently,

[we] met with smal groups of J&J managers al over the world to chal enge the Credo.95

The visionary companies have not always been perfect. But, as the J&J Credo rededication e ort and the GE agony over numbers and values il ustrate, the visionary companies, in general, have placed great emphasis on having a core ideology and have put much e ort

great emphasis on having a core ideology and have put much e ort into preserving the core ideology as a vital shaping force. And—

again the key point—they have done so more than the comparison companies in our study.

GUIDELINES FOR CEOS, MANAGERS, AND ENTREPRENEURS

A key step in building a visionary company is to articulate a core ideology. Drawing upon what we saw in the visionary companies, we've created a practical two-part de nition of core ideology.

Companies we've worked with have found this de nition to be a useful guide for set ing their own ideologies.

Core Ideology = Core Values + Purpose

Core Values = The organization's essential and enduring tenets—a smal set of general guiding

principles; not to be confused with speci c cultural or operating practices; not to be compromised for nancial gain or short-term expediency.

Purpose = The organization's fundamental reasons for existence beyond just making money—a

perpetual guiding star on the horizon; not to be confused with speci c goals or business

strategies.

Core Values

Core values are the organization's essential and enduring tenets, not to be compromised for nancial gain or short-term expediency.

Thomas J. Watson, Jr., former IBM chief executive, commented on the role of core values (what he cal s beliefs) in his 1963 booklet A Business and Its Beliefs:

I believe the real di erence between success and failure in a corporation can very often be traced to the question of how wel the organization brings out the great energies and talents of its people. What does it do to help these people nd common cause with each other? . . And how can it sustain this common cause and sense of direction through the many changes which take place from one generation to another? . . [I think the answer lies] in the power of what we cal beliefs and the appeal these beliefs have for its people. . I rmly believe that any organization, in order to survive and achieve success, must have a sound set of beliefs on which it premises al its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs. . Beliefs must always come before policies, practices, and goals. The lat er must always be altered if they are seen to violate fundamental beliefs. [emphasis ours]96

In most cases, a core value can be boiled down to a piercing simplicity that provides substantial guidance. Notice how Sam Walton captured the essence of Wal-Mart's number one value: "[We put] the customer ahead of everything else. . If you're not serving the customer, or supporting the folks who do, then we don't need you."97 Notice how James Gamble simply and elegantly stated P&G's core value of product quality and honest business: "When you cannot make pure goods of ful weight, go to something else that is honest, even if it is breaking stone."98 Notice how John Young, former HP chief executive, captured the simplicity of the HP Way:

former HP chief executive, captured the simplicity of the HP Way:

"The HP Way basical y means respect and concern for the individual; it says 'Do unto others as you would have them do unto you.' That's real y what it's al about."99 The core value can be stated a number of di erent ways, yet it remains simple, clear, straightforward, and powerful.

Visionary companies tend to have only a few core values, usual y between three and six. In fact, we found none of the visionary companies to have more than six core values, and most have less.

And, indeed, we should expect this, for only a few values can be truly core —values so fundamental and deeply held that they wil change or be compromised seldom, if ever.

This has important implications for articulating core values in your own organization. If you list more than ve or six values, you might not be capturing those that are truly core. If you have a statement of corporate values, or are in the process of creating one, you might ask yourself: “Which of these values would we strive to live to for a hundred years regardless of changes in the external environment—even if the environment ceased to reward us for having these values, or perhaps even penalized us? Conversely, which values would we be wil ing to change or discard if the environment no longer favored them?” These questions can help you identify which values are authentical y core.

A very important point: We strongly encourage you not to fal into the trap of using the core values from the visionary companies (listed in Table 3.1) as a source for core values in your own organization. Core ideology does not come from mimicking the values of other companies—even highly visionary companies; it does not come from fol owing the dictates of outsiders; it does not come from reading management books; and it does not come from a sterile intel ectual exercise of “calculating” what values would be most pragmatic, most popular, or most pro table. When articulating and codifying core ideology, the key step is to capture what is authentical y believed, not what other companies set as their values or what the outside world thinks the ideology should be.

be.It’s important to understand that core ideology exists as an internal element, largely independent of the external environment.

To use an analogy, the founders of the United States didn’t instil the core ideology of freedom and equality because the environment dictated it, nor did they expect the country to ever abandon those basic ideals in response to environmental conditions. They envisioned freedom and equality as timeless ideals independent of the environment (“We hold these truths to be self-evident. .”)—

ideals to always work toward, providing guidance and inspiration to al future generations. The same holds true in visionary companies.

IN a visionary company, the core values need no rational or external justi cation. Nor do they sway with the trends and fads of the day. Nor even do

they shift in response to changing market conditions.

Robert W. Johnson, Jr. didn't write the credo because of a conceptual theory that linked credos with profits or because he read it in a book somewhere. He wrote the credo because the company embodied deeply held beliefs that he wanted to preserve. George Merck I deeply believed that medicine is for the patient, and he wanted every Merck person to share that belief. Thomas J. Watson, Jr. described IBM's core values as "bone deep" in his father: "As far as he was concerned, those values were the rules of life—to be preserved at al costs, to be commended to others, and to be fol owed conscientiously in one's business life."100

David Packard and Bil Hewlet didn't "plan" the HP Way or HP's

"WHY of business"; they simply held deep convictions about the way a business should be built and took tangible steps to articulate and disseminate these convictions so they could be preserved and acted upon. And they held these beliefs independent of the current

acted upon. And they held these beliefs independent of the current management fashions of the day. In sifting through the Hewlet -

Packard Company archives, we came across the fol owing statement made by David Packard:

[In 1949], I at ended a meeting of business leaders. I suggested at the meeting that management people had a responsibility beyond that of making a pro t for their stockholders. I said that we. .had a responsibility to our employees to recognize their dignity as human beings, and to assure that they should share in the success which their work made possible. I pointed out, also, that we had a responsibility to our customers, and to the community at large, as wel . I was surprised and shocked that not a single person at that meeting agreed with me. While they were reasonably polite in their disagreement, it was quite evident they rmly believed I was not one of them, and obviously not qualified to manage an important enterprise.101

Hewlet , Packard, Merck, Johnson, and Watson didn't sit down and ask "What business values would maximize our wealth?" or

“What philosophy would look nice printed on glossy paper?” or

“What beliefs would please the nancial community?” No! They articulated what was inside them—what was in their gut, what was bone deep. It was as natural to them as breathing. It’s not what they believed as much as how deeply they believed it (and how consistently their organizations lived it). Again, the key word is authenticity. No arti cial avors. No added sweeteners. Just 100

percent genuine authenticity.

Purpose

Purpose is the set of fundamental reasons for a company’s existence beyond just making money. Visionary companies get at purpose by asking questions similar to those posed by David Packard earlier in this chapter. (“I want to discuss why a company exists in the first

this chapter. (“I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money.

While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being.”) Purpose need not be whol y unique. It’s entirely possible that two companies could have a very similar purpose, just as it’s entirely possible that two companies can both share a rock-solid belief in a value like integrity. The primary role of purpose is to guide and inspire, not necessarily to di erentiate. For example, many companies could share HP’s purpose of making a contribution to society via electronic equipment for the advancement of science and the welfare of humanity. The question is, would they hold it as deeply and live it as consistently as HP? As with core values, the key is authenticity, not uniqueness.

When properly conceived, purpose is broad, fundamental, and enduring; a good purpose should serve to guide and inspire the organization for years, perhaps a century or more. Roy Vagelos—

looking one hundred years into the future—described the enduring role of purpose at Merck & Company:

Imagine that al of us were suddenly transported to the year 2091. Much [of our strategy and methods] would have been changed by developments we cannot anticipate. But no mat er what changes might have occurred in the Company, I know we would nd one thing had remained the same—and the thing that mat ers most: the . . spirit of Merck people. . A century from now, I believe we would feel the same esprit de corps. . I believe this, above al , because Merck's dedication to ghting disease, relieving su ering, and helping people is a righteous cause—one that inspires people to dream of doing great things.

It is a timeless cause, and it wil lead Merck people to great achievements during the next hundred years.102

Indeed, a visionary company continual y pursues but never ful y

Indeed, a visionary company continual y pursues but never ful y achieves or completes its purpose—like chasing the earth's horizon or pursuing a guiding star. Walt Disney captured the enduring, never-completed nature of purpose when he commented: Disneyland wil never be completed, as long as there is imagination left in the world.103

Boeing can never be done pushing the envelope in aerospace technology; the world wil always need a corporate Chuck Yeager.

HP can never reach a point where it says, "There are no more contributions we can make." GE can never complete the task of improving the quality of life through technology and innovation.

Marriot can evolve—from A&W Root Beer stands, to food chains, to airline catering, to hotels, and to who-knows-what in the twenty-rst century —yet never outgrow the fundamental task of "making people away from home feel that they're among friends and real y wanted."

Motorola can evolve—from bat ery eliminators for home radios, to car radios, to home television, to semiconductors, to integrated circuits, to cel

ular communications, to satel ite systems, and to who-knows-what in the twenty- rst century—yet never outgrow its fundamental quest to “honorably serve the community by providing products and services of superior quality at a fair price.”

Disney can evolve—from rinky-dink cartoons, to ful -length animated movies, to the Mickey Mouse club, to Disneyland, to box-o ce hits, to EuroDisney, and to who-knows-what in the twenty-rst century—yet never outgrow the core task of “bringing happiness to mil ions.”

Sony can evolve—from rice cookers and crude heating pads, to tape recorders, to transistor radios, to Trinitron color TVs, to VCRs, to the Walkman, to robotics systems, and to who-knows-what in the twenty- rst century—yet never nish pursuing its core purpose of experiencing the sheer joy of applied technological innovation that brings about “untold pleasure and untold bene ts . . . and the

brings about “untold pleasure and untold bene ts . . . and the elevation of the [Japanese] culture.”

In short, a visionary company can, and usual y does, evolve into exciting new business areas, yet remain guided by its core purpose.

As an implication of this, if you’re thinking about purpose for your own organization, we encourage you to not simply write a speci c description of your product lines or customer segments (“We exist to make X products for Y customers”). For example, “We exist to make cartoons for kids” would have been a terrible purpose statement for Disney, neither compel ing nor exible enough to last one hundred years. But “to use our imagination to bring happiness to mil ions” can easily last one hundred years as a compel ing purpose. The important step is to get at the deeper, more fundamental reasons for the organization’s existence. An e ective way to get at purpose is to pose the question “Why not just shut this organization down, cash out, and sel o the assets?” and to push for an answer that would be equal y valid both now and one hundred years into the future.

We want to be clear: We did not nd an explicit and formal statement of purpose in al of our visionary companies. We sometimes found purpose to

be more implicitly or informal y stated. Nonetheless, because purpose di ers su ciently from core values (which we saw explicitly in al eighteen cases) in its role and avor—and because thirteen companies in our study did make purposelike statements (either formal/explicit or informal/implicit) at some point in their history—it's useful to identify purpose as a speci c and distinct component of core ideology.104 We've found that most companies bene t from articulating both core values and purpose in their core ideology, and we encourage you to do the same.

A Special Note to Non-CEOs

Although we've writ en this chapter from the perspective of the overal corporation, we've found the same ideas can apply to

overal corporation, we've found the same ideas can apply to managers at al levels of an organization. There's absolutely no reason why you can't articulate a core ideology for your own work group, department, or division. If your company has a strong overall corporate ideology, then your group-level ideology wil natural y be constrained by that ideology—particularly the core values. But you can stil have your own avor of ideology, and certainly you can articulate a purpose for your own suborganization. What is its reason for being? What would be lost if it ceased to exist?

And if your company doesn't have an overal corporate ideology, you can stil set one at your level—and you'l probably have more freedom to do so. Just because the overal company lacks a clear ideology doesn't mean your group shouldn't have one!

Furthermore, you can play a key role in pushing your company to articulate its ideology by set ing one at your own level and let ing it serve as a role model. We've seen subgroups in companies exert a great deal of pressure on the overal corporation by being role models from within.

A Special Note to Entrepreneurs and Smal Business Managers

Not al of the visionary companies began life with a wel -

articulated core ideology. A few did. Robert W. Johnson, for example, had a sense of J&J's purpose from the moment he conceived the company ("to al eviate pain and disease").105 So did Masaru Ibuka of Sony when he wrote the company's 1946

prospectus. But others, like HP and Motorola, didn't pin down their ideology until after the company had solidly passed the initial start-up phase, often a decade or so after founding (but usual y before they became big companies). In the early stages, most visionary companies just tried to get o the ground and make a go of it and their ideology became clear only as the company evolved. So if you haven't yet articulated a core ideology because you've been in the

haven't yet articulated a core ideology because you've been in the throes of launching a company, that's okay. But the earlier, the bet er. In fact, if you've made time to read this book, then we encourage you to set aside the time to articulate your ideology now.

Chapter 4

Chapter 4

Preserve the Core/Stimulate Progress

Paul Galvin urged us to keep moving forward, to be in motion for motion's sake. . He urged continuous renewal. . Change unto itself is essential. But, taken alone: it is limited. Yes, renewal is change. It cal s for "do dif erently." It is wil ing to replace and redo. But it also cherishes the proven basics.1

ROBERT W. GALVIN, FORMER CEO, MOTOROLA, 1991

It is the consistency of principle . . that gives us direction. .

[Certain principles] have been characteristics of P&G ever since our founding in 1837. While Procter & Gamble is oriented to progress and growth, it is vital that employees understand that the company is not only concerned with results, but how the results are obtained.2

ED HARNESS, FORMER PRESIDENT, PROCTER & GAMBLE, 1971

In the previous chapter, we presented core ideology as an essential component of a visionary company. But core ideology alone, as important as it is, does not—indeed cannot—make a visionary company. A company can have the world's most deeply cherished and meaningful core ideology, but if it just sits stil or refuses to change, the world wil pass it by. As Sam Walton pointed out: "You can't just keep doing what works one time, because everything around you is always changing. To succeed, you have to stay out in front of that change."3 Similarly, Thomas J. Watson, Jr., embedded a huge caveat in his booklet A Business and Its Beliefs: If an organization is to meet the chal enges of a changing world, it must be prepared to change everything about itself except [its basic] beliefs as it moves through corporate life. . The only sacred cow in an organization should be its basic philosophy of doing business. [emphasis ours]4

We believe IBM began to lose its stature as a visionary company in the late 1980s and early 1990s in part because it lost sight of Watson's incisive caveat. Nowhere in IBM's "three basic beliefs"* do we see anything about white shirts, blue suits, speci c policies, speci c procedures, organizational hierarchies, mainframe computers—or computers at al , for that mat er. Blue suits and white shirts are not core values. Mainframe computers are not core values. Speci c policies, procedures, and practices are not core values. IBM should have much more vigorously changed everything about itself except its core values. Instead, it stuck too long to strategic and operating practices and cultural manifestations of the core values.

We've found that companies get into trouble by confusing core ideology with speci c, noncore practices. By confusing core

ideology with speci c, noncore practices. By confusing core ideology with noncore practices, companies can cling too long to noncore items—things that should be changed in order for the company to adapt and move forward. This brings us to a crucial point: A visionary company careful y preserves and protects its core ideology, yet al the speci c manifestations of its core ideology must be open for change and evolution. For example:

• HP's "Respect and concern for individual employees" is a permanent, unchanging part of its core ideology; serving fruit and doughnuts to al employees at ten A.M. each day is a noncore practice that can change.

• Wal-Mart's "Exceed customer expectations" is a permanent, unchanging part of its core ideology; customer greeters at the front door is a noncore practice that can change.

• Boeing's "Being on the leading edge of aviation; being pioneers" is a permanent, unchanging part of its core ideology; commitment to building jumbo jets is part of a noncore strategy that can change.

• 3M's "Respect for individual initiative" is a permanent, unchanging part of its core ideology; the 15 percent rule (where technical employees can spend 15 percent of their time on projects of their choosing) is a noncore practice that can change.

• Nordstrom’s “Service to the customer above al else” is a permanent, unchanging part of its core ideology; regional geographic focus, piano players in the lobby, and overstocked inventory management are non-core practices that can change.

• Merck’s “We are in the business of preserving and improving human life” is a permanent, unchanging part of its core ideology; its commitment to research targeted at speci c diseases is part of a noncore strategy that can change.

It is absolutely essential to not confuse core ideology with culture,

It is absolutely essential to not confuse core ideology with culture, strategy, tactics, operations, policies, or other noncore practices.

Over time, cultural norms must change; strategy must change; product lines must change; goals must change; competencies must change; administrative policies must change; organization structure must change; reward systems must change. Ultimately, the only thing a company should not change over time is its core ideology—

that is, if it wants to be a visionary company.

This brings us to the central concept of this book: the underlying dynamic of “Preserve the core and stimulate progress” that’s the essence of a visionary company. This is a brief chapter to introduce this fundamental concept and to present an organizing framework that provides a backdrop for the dozens of detailed stories and specific examples that fil the remaining six chapters.

DRIVE FOR PROGRESS

Core ideology in a visionary company works hand in hand with a relentless drive for progress that impels change and forward movement in al that is not part of the core ideology. The drive for progress arises from a deep human urge—to explore, to create, to discover, to achieve, to change, to improve. The drive for progress is not a sterile, intel ectual recognition that “progress is healthy in a changing world” or that “healthy organizations

should change and improve” or that “we should have goals”; rather, it’s a deep, inner, compulsive—almost primal—drive.

It is the type of drive that led Sam Walton to spend time during the last precious few days of his life discussing sales gures for the week with a local store manager who dropped by his hospital room—a drive shared by J. Wil ard Marriot , who lived by the mot o “Keep on being constructive, and doing constructive things, until it’s time to die . . make every day count, to the very end.”5

It is the drive that motivated Citicorp to set the goal to become the most pervasive nancial institution in the world when it was stil smal enough that such an audacious goal would seem ludicrous, if not foolhardy. It is the type of drive that led Walt

ludicrous, if not foolhardy. It is the type of drive that led Walt Disney to bet its reputation on Disneyland with no market data to indicate demand for such a wild dream. It is the type of drive that impel ed Ford to stake its future on the audacious goal “to democratize the automobile” and thereby leave an indelible imprint on the world.

It is the type of drive that spurred Motorola to live by the mot o

“Be in motion for motion’s sake!” and propel ed the company from bat ery eliminators and car radios to televisions, microprocessors, cel ular communications, satel ites circling the earth, and pursuit of the daunting “six sigma” quality standard (only 3.4 defects per mil ion). Robert Galvin used the term “renewal” to describe Motorola’s inner drive for progress:

Renewal is the driving thrust of this company. Literal y the day after my father founded the company to produce B Bat ery Eliminators in 1928, he had to commence the search for a replacement product because the Eliminator was predictably obsolete in 1930. He never stopped renewing. Nor have we. .

Only those incultured with an elusive idea of renewal, which obliges a proliferation of new, creative ideas . . and an unstinting dedication to commit ing to the risk and promise of those unchartable ideas, wil thrive.6

It is the drive for progress that pushed 3M to continual y experiment and solve problems that other companies had not yet even recognized as problems, resulting in such pervasive innovations as waterproof sandpaper, Scotch tape, and Post-it notes.

It compel ed Procter & Gamble to adopt pro t-sharing and stock ownership programs in the 1880s, long before such steps became fashionable, and urged Sony to prove it possible to commercialize transistor-based products in the early 1950s, when no other companies had done so. It is the drive that led Boeing to undertake some of the boldest gambles in business history, including the decision to build the B-747 in spite of highly uncertain market demand—a drive articulated by Wil iam E. Boeing during the early

demand—a drive articulated by Wil iam E. Boeing during the early days, of the company:

It behooves no-one to dismiss any novel idea with the statement that it "can't be done." Our job is to keep everlastingly at research and experiment, to adapt our laboratories to production as soon as practicable, to let no new improvement in flying and flying equipment pass us by.7

Indeed, the drive for progress is never satis ed with the status quo, even when the status quo is working wel . Like a persistent and incurable itch, the drive for progress in a highly visionary company can never be satis ed under any conditions, even if the company succeeds enormously: "We can always do bet er; we can always go further; we can always nd new possibilities." As Henry Ford said, "You have got to keep doing and going."8

An Internal Drive

Like core ideology, the drive for progress is an internal force. The drive for progress doesn't wait for the external world to say "It's time to change" or "It's time to improve" or "It's time to invent something new." No, like the drive inside a great artist or proli c inventor, it is simply there, pushing outward and onward. You don't create Disneyland, build the 747, pursue six-sigma quality, invent 3M Post-it notes, institute employee stock ownership in the 1880s, or meet with a store manager on your deathbed

because the outside environment demands it. These things arise out of an inner urge for progress. In a visionary company, the drive to go further, to do bet er, to create new possibilities needs no external justification.

Through the drive for progress, a highly visionary company displays a powerful mix of self-con dence combined with self-criticism. Self-con dence al ows a visionary company to set audacious goals and make bold and daring moves, sometimes ying in the face of industry conventional wisdom or strategic prudence; it

in the face of industry conventional wisdom or strategic prudence; it simply never occurs to a highly visionary company that it can't beat the odds, achieve great things, and become something truly extraordinary. Self-criticism, on the other hand, pushes for self-induced change and improvement before the outside world imposes the need for change and improvement; a visionary company thereby becomes its own harshest critic. As such, the drive for progress pushes from within for continual change and forward movement in everything that is not part of the core ideology.

Notice the ruthless self-imposed discipline captured in Bruce Nordstrom's response to the adulation the company had at ained for its customer service standards: "We don't want to talk about our service. We're not as good as our reputation. It is a very fragile thing. You just have to do it every time, every day."9 Notice the inner drive described by a Hewlet -Packard marketing manager who never let his people rest on their laurels: We're proud of our successes, and we celebrate them. But the real excitement comes in guring out how we can do even bet er in the future. It's a never-ending process of seeing how far we can go. There's no ultimate nish line where we can say

"we've arrived." I never want us to be satis ed with our success, for that's when we'l begin to decline.10

PRESERVE THE CORE AND STIMULATE PROGRESS

Notice the dynamic interplay between core ideology and the drive for progress:

Core Ideology

Drive for Progress

Urges continual change (new

Provides continuity and

directions, new methods, new

stability.

strategies, and so on).

Impels

constant movement

Plants a relatively fixed stake

(toward goals, improvement,

in the ground.

an envisioned form, and so

on).

Limits

possibilities

and

Expands the number and

directions for the company (to

variety of possibilities that the

those consistent with the

company can consider.

content of the ideology).

Has clear content (“This is our

Can be content-free (“Any

core ideology and we wil not

progress is good, as long as it

breach it”).

is consistent with our core”).

Expressing the drive for

Instal ing a core ideology is,

progress can lead to dramatic,

by its very nature, a

radical,

and revolutionary

conservative act.

change.

The interplay between core and progress is one of the most important ndings from our work. In the spirit of the “Genius of the AND,” a visionary company does not seek mere balance between core and progress; it seeks to be both highly ideological and highly progressive at the same time, al the time. Indeed, core ideology and the drive for progress exist together in a

visionary company like yin and yang of Chinese dualistic philosophy; each element enables, complements, and reinforces the other:

• The core ideology enables progress by providing a base of continuity around which a visionary company can evolve, experiment, and change. By being clear about what is core (and therefore relatively xed), a company can more easily seek variation and movement in al that is not core.

• The drive for progress enables the core ideology, for without

• The drive for progress enables the core ideology, for without continual change and forward movement, the company—the carrier of the core—wil fal behind in an ever-changing world and cease to be strong, or perhaps even to exist.

Although the core ideology and drive for progress usual y trace their roots to speci c individuals, a highly visionary company institutionalizes them—weaving them into the very fabric of the organization. These elements do not exist solely as a prevailing ethos or “culture.” A highly visionary company does not simply have some vague set of intentions or passionate zeal around core and progress. To be sure, a highly visionary company does have these, but it also has concrete, tangible mechanisms to preserve the core ideology and to stimulate progress.

Walt Disney didn’t leave its core ideology up to chance; it created Disney University and required every single employee to at end

“Disney Traditions” seminars. Hewlet -Packard didn’t just talk about the HP Way; it instituted a religious promote-from-within policy and translated its philosophy into the categories used for employee reviews and promotions, making it nearly impossible for anyone to become a senior executive without t ing tightly into the HP Way.

Marriot didn’t just talk about its core values; it instituted rigorous employee screening mechanisms, indoctrination processes, and elaborate customer feedback loops. Nordstrom didn’t just philosophize about fanatical customer service; it created a cult of service reinforced by tangible rewards and penalties—“Nordies”

who serve the customer wel become wel -paid heroes, and those who treat customers poorly get spit right out of the company.

Motorola didn’t just preach quality; it commit ed to a daunting six-sigma quality goal and pursued the Baldrige Quality Award.

General Electric didn’t just ponti cate about the importance of continuous technological innovation in the early 1900s; it created one of the world’s rst industrial R&D laboratories. Boeing didn’t just dream about being on the leading edge of aviation; it made bold, irreversible commitments to audacious projects like the

bold, irreversible commitments to audacious projects like the Boeing 747, in which failure could have literal y kil ed the company. Procter & Gamble didn’t just think self-imposed progress was a good idea; it instal ed a structure that pit ed P&G product lines in erce competition with each other, thus using institutionalized internal competition as a powerful mechanism to stimulate progress. 3M didn’t just pay lip service to encouragement of individual initiative and innovation; it decentralized, gave researchers 15 percent of their time to pursue any project of their liking, created an internal venture capital fund, and instituted a rule that 25 percent of each division’s annual sales should come from products introduced in the previous five years.

Tangible. Concrete. Speci c. Solid. Look inside a visionary company and you’l see a ticking, bonging, humming, buzzing, whirring, clicking, clat ering clock. You’l see tangible manifestations of its core ideology and drive for progress everywhere.

INTENTIONS are al ne and good, but it is the translation of those intentions into concrete items—mechanisms with teeth

—that can make the di erence between becoming a visionary company or forever remaining a wannabe.

We’ve found that organizations often have great intentions and inspiring visions for themselves, but they don’t take the crucial step of translating their intentions into concrete items. Even worse, they often tolerate

organization characteristics, strategies, and tactics that are misaligned with their admirable intentions, which creates confusion and cynicism. The gears and mechanisms of the ticking clock do not grind against each other but rather work in concert—in alignment with each other—to preserve the core and stimulate progress. The builders of visionary companies seek alignment in strategies, in tactics, in organization systems, in structure, in

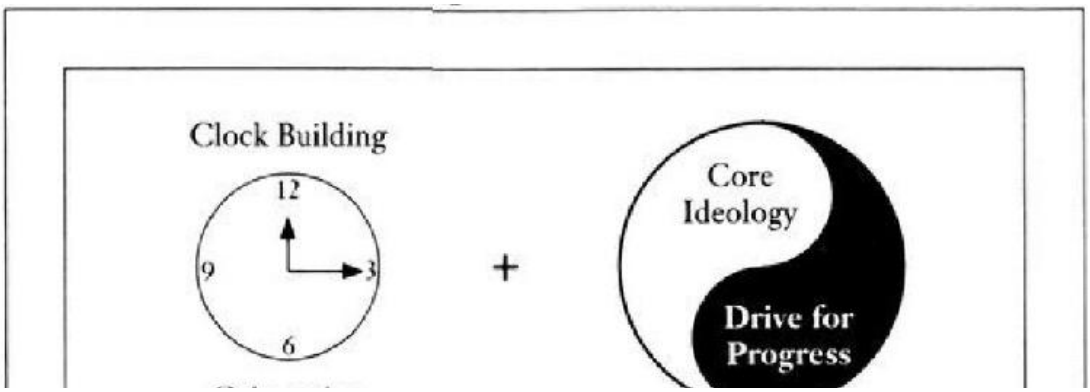
strategies, in tactics, in organization systems, in structure, in incentive systems, in building layout, in job design—in everything.

KEY CONCEPTS FOR CEOS, MANAGERS, AND ENTREPRENEURS

In working with practicing managers, we've found it useful to capture al of the key ideas from our ndings into an overal framework that managers can use as a conceptual guide for diagnosing and designing their own organization.

Our framework, shown in Figure 4.A, has two layers. The top layer of the framework contains elements discussed in earlier chapters: a clock-building orientation (Chapter 2), the yin/yang symbol (No "Tyranny of the OR"), core ideology (Chapter 3), and the drive for progress (described earlier in this chapter). You can think of the top layer as a set of guiding intangibles that are necessary requirements to become a visionary company. However, as important as they are, these intangible elements alone are not suf icient for becoming a visionary company. To become a visionary company requires translating these intangibles down into the second layer of the framework, and this is where most companies just fail to make the grade.

Figure 4.A



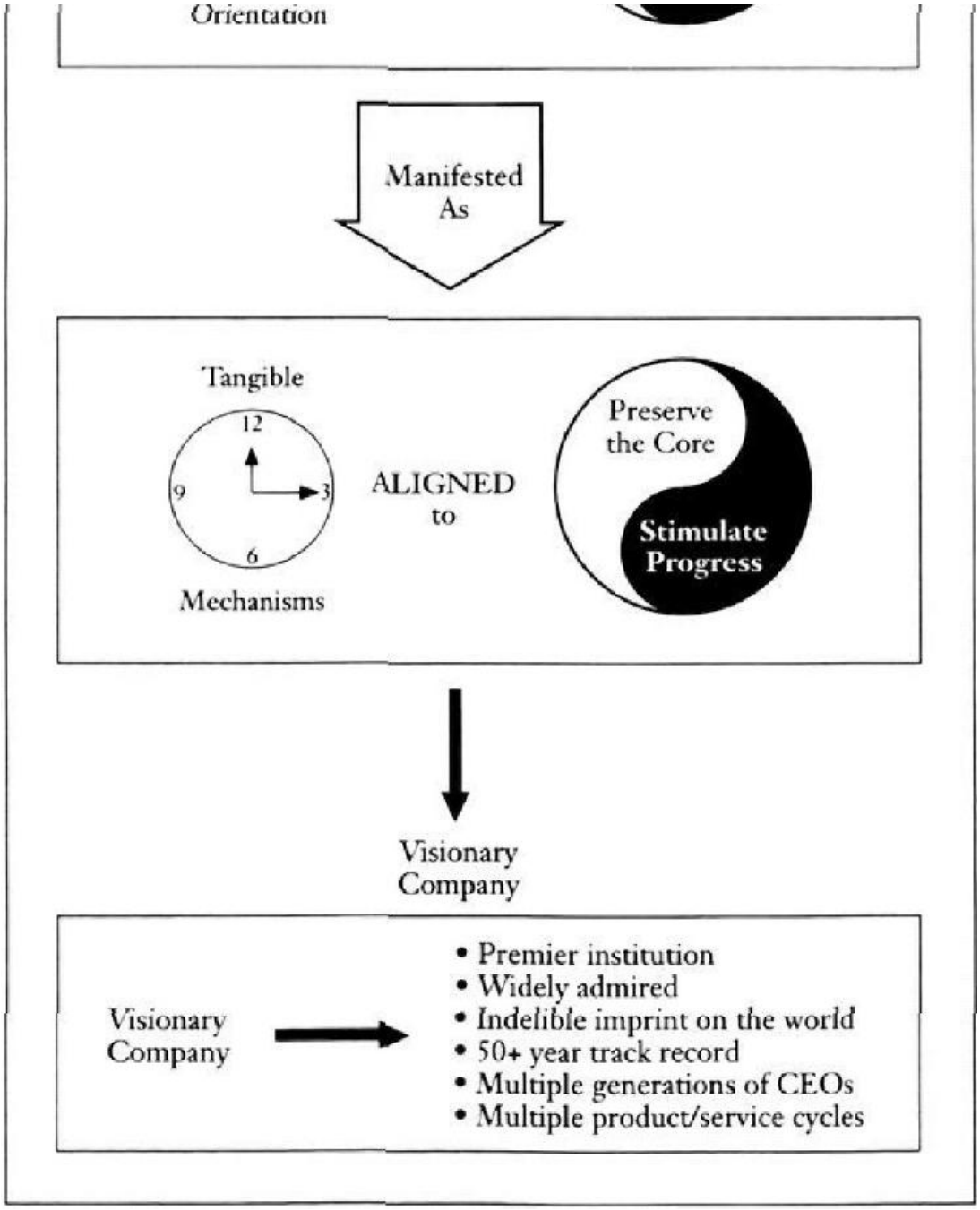


Figure 4.A

Conceptual Framework

IF you are involved in building and managing an organization, the single most important point to take away from this book is the critical importance of creating tangible mechanisms aligned to preserve the core and stimulate progress. This is the essence of clock building.

Indeed, if we had to distil our six-year research project into one key concept that conveys the most information about what it takes to build a visionary company, we would draw the fol owing icon, which wil appear atop al of the remaining chapters: In the chapters that fol ow, we wil describe the speci c methods of preserving the core and stimulating progress that distinguished the visionary companies from the comparison companies, capped by a concluding chapter on alignment. They fal into five categories:

• Big Hairy Audacious Goals (BHAGs): Commitment to chal enging, audacious—and often risky—goals and projects toward which a visionary company channels its e orts (stimulates progress).

• Cult-like Cultures: Great places to work only for those who

• Cult-like Cultures: Great places to work only for those who buy in to the core ideology; those who don’t t with the ideology are ejected like a virus (preserves the core).

• Try a Lot of Stu and Keep What Works: High levels of action and experimentation—often unplanned and undirected—that produce new and unexpected paths of progress and enables visionary companies to mimic the biological evolution of species (stimulates progress).

• Home-grown Management: Promotion from within, bringing to senior levels only those who’ve spent signi cant time steeped in the core ideology of the company (preserves the core).

• Good Enough Never Is: A continual process of relentless self-improvement with the aim of doing bet er and bet er, forever into the future (stimulates progress).

We wil provide examples, anecdotes, and systematic evidence to support and il ustrate each of these methods. As you read each of these chapters, we encourage you to use our overal framework as a guide for diagnosing your own organization:

• Has it made the shift in perspective from time tel ing to clock building?

• Does, it reject the “Tyranny of the OR” and embrace the

“Genius of the AND”?

• Does it have a core ideology—core values and purpose beyond just making money?

• Does it have a drive for progress—an almost primal urge for change and forward movement in al that is not part of the core ideology?

• Does it preserve the core and stimulate progress through tangible practices, such as Big Hairy Audacious Goals, homegrown management, and the others described throughout the remainder of this book?

remainder of this book?

• Is the organization in alignment, so that people receive a consistent set of signals to reinforce behavior that supports the core ideology and achieves desired progress?

When you nish reading the next six chapters, you should have a sizable mental list of speci c, tangible things that might make sense for you to implement in your own organization to make it more visionary. It doesn’t mat er whether you’re a CEO, manager, individual contributor, or entrepreneur. You can put these ideas to work.

* IBM’s three basic beliefs are: Give ful consideration to the individual employee, spend a lot of time making customers happy, and go the last mile to do things right.

Chapter 5

Chapter 5

Big Hairy Audacious Goals

Far bet er to dare mighty things, to win glorious triumphs, even though checkered by failure, than to take rank with those poor spirits who neither enjoy much nor suf er much, because they live in the gray twilight that knows not victory, nor defeat.

THEODORE ROOSEVELT, 18991

We worked furiously [to realize our goals]. Because we didn't have fear, we could do something drastic.

MASARU IBUKA, FOUNDER, SONY CORPORATION, 19912

Of al the things I've done, the most vital is coordinating the

Of al the things I've done, the most vital is coordinating the talents of those who work for us and pointing them toward a certain goal.

WALTER ELIAS DISNEY, FOUNDER, WALT DISNEY COMPANY, 19543

Put yourself in the shoes of Boeing's management team in 1952.

Your engineers have the idea to build a large jet aircraft for the commercial market. Your company has virtual y no presence in the commercial market and your earlier commercial at empts have been failures. You've been building aircraft primarily for the military (B-17 Flying Fortress, B-29 Superfortress, B-52 jet bomber) and four- fths of your business comes from one customer—the Air Force.4 Furthermore, your sales force reports that commercial airlines in both the United States and Europe have expressed lit le interest in the idea of a commercial jet from Boeing. The airlines have an anti-Boeing bias—a "they build great bombers, period"

at itude. No other aircraft company has proved that there is a commercial market for jet aircraft. Rival Douglas Aircraft believes that propel er-driven planes wil continue to dominate the commercial market. Your company stil has memories of the painful layo s from fty-one thousand employees down to seventy-ve hundred after the end of World War I .5 And, for the clincher, you estimate that it wil cost about three times your average annual after-tax pro t for the past ve years—roughly a quarter of your entire corporate net worth—to develop a prototype for the jet.6

(Fortunately, you believe that you could also o er this jet aircraft to the military as a fueling plane for the military, but you stil need to gamble the $15 mil ion of your own money to develop the prototype.)7

What should you do?

If you're Boeing's management, you defy the odds and commit to

If you're Boeing's management, you defy the odds and commit to the audacious goal of establishing yourself as a major player in the commercial aircraft industry. You build the jet. You cal it the 707.

And you bring the commercial world into the jet age.

In contrast, Douglas Aircraft (later to become McDonnel Douglas, Boeing's comparison counterpart in our study) made the explicit decision to stick with piston propel ers and take a cautious wait-and-see approach to commercial jet aircraft.8 Douglas waited and saw Boeing y right past and seize dominant control of the commercial market. Even as late as 1957—the year, according to Business Week, that the airlines "fel al over each other in their rush to replace piston planes"9—Douglas stil did not have a jet ready for market. Final y, in 1958, Douglas introduced the DC-8, but never caught up to Boeing.

Perhaps you're thinking, "But might Boeing have just been lucky?

Boeing looks smart in retrospect, but it could just as easily have been wrong." Good point. And we would be inclined to agree, except for one thing: Boeing has a long and consistent history of commit ing itself to big,

audacious chal enges. Looking as far back as the early 1930s, we see this bold commitment behavior at Boeing when it set the goal of becoming a major force in the military aircraft market and gambled its future on the P-26 military plane and then “bet the pot” on the B-17 Flying Fortress.10

Nor did this pat ern end in the 1950s with the 707. During the development of the 727 in the early 1960s, Boeing turned the demands of a potential customer (Eastern Airlines) into a clear, precise—and nearly impossible—chal enge for its engineers: Build a jet that could land on runway 4-22 at La Guardia Airport (only 4,860 feet long—much too short for any existing passenger jet) and be able to y nonstop from New York to Miami and be wide enough for six-abreast seating and have a capacity of 131

passengers and meet Boeing’s high standards of indestructibility.

Boeing’s engineers made a signi cant breakthrough—the 727—

largely because they were given no other choice.11

In contrast, Douglas Aircraft was slow to respond and didn’t

In contrast, Douglas Aircraft was slow to respond and didn’t introduce the DC-9 until two years after the 727, put ing it even further behind Boeing in the commercial jet market. And by then, Boeing had an even bet er short-range jet, the 737, in development.

Theoretical y, Douglas could have risen to the Eastern Airlines chal enge just as quickly as Boeing, but it didn’t. (As an aside, Boeing’s original market-size estimate for the 727 was three hundred airplanes. It eventual y sold over eighteen hundred, and the 727 became the short-range workhorse for the airline industry.) In 1965, Boeing made one of the boldest moves in business history: the decision to go forward with the 747 jumbo jet, a decision that nearly kil ed the company. At the decisive board of directors meeting, Boeing Chairman Wil iam Al en responded to the comment by a board member that “if the [747] program isn’t panning out, we can always back out.”

“Back out?” sti ened Al en. “If the Boeing Company says we wil build this airplane, we wil build it even if it takes the resources of the entire company!”

Indeed, as it had with the P-26, B-17, 707, and 727, Boeing became irreversibly commit ed to the 747— nancial y, psychological y, publicly. During the 747 development, a Boeing visitor commented, “You know, Mr. Al en, [Boeing has] a lot riding on that plane. What would you do if the rst airplane crashed on takeo ?” After a long pause, Al en replied, “I’d rather talk about something pleasant—like a nuclear war.”12

Again, as with the DC-8 and DC-9, rival McDonnel Douglas was slow to commit to a jumbo jet project and fel into yet another round of catch-up with Boeing. The DC-10, McDonnel Douglas’s response, never at ained the same market position as the 747.

BHAGS: A POWERFUL MECHANISM TO STIMULATE PROGRESS

Boeing Corporation is an excel ent example of how highly visionary companies often use bold missions—or what we prefer to cal BHAGs (pronounced bee-hags, short for “Big Hairy Audacious

BHAGs (pronounced bee-hags, short for “Big Hairy Audacious Goals”)—as a particularly powerful mechanism to stimulate progress. A BHAG is not the only powerful mechanism for stimulating progress, nor do al the visionary companies use it extensively (some, like 3M and HP, prefer to rely primarily on other mechanisms to stimulate progress, as we’l discuss in later chapters). Nonetheless, we found more evidence of this powerful mechanism in the visionary companies and less evidence of it in the comparison companies in fourteen out of eighteen cases. In three cases we found the visionary company and comparison company to be indistinguishable from each other with respect to BHAGs. In one case, we found more evidence for the use of BHAGs in the comparison company. (See Table A.5 in Appendix 3.) Al companies have goals. But there is a di erence between merely having a goal and becoming commit ed to a huge, daunting chal enge—like a big mountain to climb. Think of the moon mission in the 1960s. President Kennedy and his advisers could have gone o into a conference room and drafted something like

“Let’s beef up our space program,” or some other such vacuous statement. The most optimistic scienti c assessment of the moon mission’s chances for success in 1961 was fty- fty and most experts were, in fact, more pessimistic.13 Yet, nonetheless, Congress agreed (to the tune of an immediate $549 mil ion and bil ions more in the fol owing ve years) with Kennedy’s proclamation on May 25, 1961, “that this Nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to earth.”14 Given the odds, such a bold commitment was, at the time, outrageous. But that’s part of what made it such a powerful mechanism for get ing the United States, stil groggy from the 1950s and the Eisenhower era, moving vigorously forward.

A Clear—and Compel ing—Goal

Like the moon mission, a true BHAG is clear and compel ing and serves as a unifying focal point of e ort—often creating immense

serves as a unifying focal point of e ort—often creating immense team spirit. It has a clear nish line, so the organization can know when it has achieved the goal; people like to shoot for finish lines.

A BHAG engages people—it reaches out and grabs them in the gut. It is tangible, energizing, highly focused. People “get it” right away; it takes lit le or no explanation.

The moon mission didn’t need a commit ee to spend endless hours wordsmithing the goal into a verbose, meaningless, impossible-to-remember “mission statement.” No, the goal itself—

the mountain to climb—was so easy to grasp, so compel ing in its own right, that it could be said one hundred di erent ways, yet easily understood by everyone. When an expedition sets out to climb Mount Everest, it doesn’t need a three-page, convoluted

“mission statement” to explain what Mount Everest is. Think about your own organization. Do you have verbose statements oating around, yet no stimulating bold goals with the compel ing clarity of the moon mission, climbing Mount Everest, or the corporate BHAGs in this chapter? Most

corporate statements we've seen do lit le to provoke forward movement (although some do help to preserve the core). To stimulate progress, however, we encourage you to think beyond the traditional corporate statement and consider the powerful mechanism of a BHAG.

Re ecting on the chal enges facing a company like General Electric, CEO Jack Welch stated that the rst step—before al other steps—is for the company to "de ne its destiny in broad but clear terms. You need an overarching message, something big, but simple and understandable."15 Like what? GE came up with the fol owing:

"To become #1 or #2 in every market we serve and revolutionize this company to have the speed and agility of a smal enterprise."16

Employees throughout GE ful y understood—and remembered—the BHAG. Now compare the compel ing clarity of GE's BHAG with the

BHAG. Now compare the compel ing clarity of GE's BHAG with the di cult-to-understand, hard-to-remember "vision statement"

articulated by Westinghouse in 1989:

General Electric17

Westinghouse18

Become #1 or #2 in every

Total Quality

market we serve and

Market Leadership

revolutionize this company

Technology Driven

to have the speed and agility

Global

of a smal enterprise.

Focused Growth

Diversified

The point here is not that GE had the “right” goal and Westinghouse had the “wrong” goal. The point is that GE’s goal was clear, compel ing, and more likely to stimulate progress, like the moon mission. Whether a company has the right BHAG or whether the BHAG gets people going in the right direction are not irrelevant questions, but they miss the essential point. Indeed, the essential point of a BHAG is bet er captured in such questions as: “Does it stimulate forward progress? Does it create momentum? Does it get people going? Does it get people’s juices owing? Do they nd it stimulating, exciting, adventurous? Are they wil ing to throw their creative talents and human energies into it?” (NOTE: This doesn’t mean that a visionary company pursues any random BHAG that occurs to it. An equal y important question is, “Does it t with our core ideology?” More on this at the end of the chapter.) Take, for example, the case of Philip Morris versus R.J. Reynolds.

In 1961, R.J. Reynolds had the largest market share (almost 35

percent), greatest size, and highest pro tability in the tobacco industry. Philip Morris, on the other hand, was a sixth-place also-

industry. Philip Morris, on the other hand, was a sixth-place also-ran with less than 10 percent market share.19 But Philip Morris had two things going for it that R.J. Reynolds didn’t. First, and certainly not to be discounted, Philip Morris had recently repositioned a lit le-known women’s cigaret e cal ed Marlboro as a general market cigaret e with a cowboy mascot that would prove to be a huge success. And second, Philip Morris had something to shoot for.

Coming from behind, Philip Morris set the audacious goal for itself of becoming the General Motors of the tobacco industry.20

(Back in the 1960s, becoming “the General Motors of the industry”

meant becoming the dominant worldwide player.) Philip Morris then commit ed itself to this goal and rose from sixth to fth, from fth to fourth, and so on until it blasted longtime leader R.J.

Reynolds out of rst place. During this same time period, R.J.

Reynolds displayed a stodgy, good-old-boy, clubby atmosphere and no clear, driving ambition for itself other than to at ain a good return for shareholders.

Of course, Philip Morris had it easier than R.J. Reynolds: It’s much more motivating to come from behind and topple industry giants—

like David versus Goliath—than to simply hang on to number one.

It’s exciting to bat le Goliath! It’s even more exciting to beat him.

But the fact remains that of the ve also-ran tobacco companies in the 1960s, only one—Philip Morris—set and at ained the ambitious goal of knocking Goliath on his rear and becoming the GM of the industry. To seriously entertain such ambitions as the distant sixth-place player in an industry dominated by entrenched players does not suggest timidity. Indeed, fol owing the rational models of strategic planning, it would suggest arrogant stupidity, not farsighted wisdom. We’ve sometimes used the Philip Morris situation (disguised so as to not give away the punch line) with MBA students wel schooled in strategic planning. Almost none of them think the company should go for the big cigar; as one student put it, “They don’t have the right strategic assets and competencies; they should stick to their niche.” Certainly, Philip Morris could have been wrong, long forgot en, and we wouldn’t be writing about it in this book. But, equal y certain, had Philip Morris timidly held to its

this book. But, equal y certain, had Philip Morris timidly held to its industry niche and not chal enged Goliath, we wouldn’t be writing about them in this book, either.

AS in the Philip Morris case, BHAGs are bold, fal ing in the gray area where reason and prudence might say “This is unreasonable,” but the drive for progress says, “We believe we can do it nonetheless.” Again, these aren’t just “goals”; these are Big Hairy Audacious Goals.

Another example, in 1907, Henry Ford, a forty-three-year-old businessman, stimulated his company forward with an astounding BHAG: “To democratize the automobile.” Ford proclaimed:

[To] build a motor car for the great multitude. . . . It wil be so low in price that no man making a good salary wil be unable to own one—and enjoy with his family the blessing of hours of pleasure in God’s great open spaces. . . . everybody wil be able to a ord one, and everyone wil have one. The horse wil have disappeared from our highways, the automobile wil be taken for granted.21

At the time of this BHAG, Ford was merely one of over thirty companies al clamoring for a slice of the emerging automobile market. No company had yet established itself as a clear leader in the chaos of the young industry, and Ford had only about 15

percent of the market. This outrageous ambition inspired the entire Ford design team to work at a ferocious pace til ten or eleven every night.22 At one point, Charles Sorenson, a member of that team, remembered, “Mr. Ford and I [once] worked about forty-two hours without letup.”23

hours without letup.”

During this period of time, General Motors (Ford’s comparison in the study) watched its market share erode from 20 to 10 percent while Ford rose to the number one position in the industry.

Ironical y, however, once Ford had achieved its big hairy goal of democratizing the automobile, it didn’t set a new BHAG, became complacent, and watched GM set and achieve the equal y audacious goal of overcoming Ford. We should emphasize here that a BHAG

only helps an organization as long as it has not yet been achieved.

Ford su ered from what we cal the “we’ve arrived” syndrome—a complacent lethargy that can arise once a company has achieved one BHAG and does not replace it with another. (As an aside, if your organization has a BHAG, you might want to think about what’s next before you complete the current one. Also, if you nd your organization is in a state of malaise, you might ask yourself if you once had a BHAG—either implicit or explicit—that you’ve at ained and not replaced with a new one.)

Let’s look at another example of audacity in a young, smal company. In the late 1950s, Tokyo Tsushin Kogyo (a relatively smal company, largely unknown outside of its home country) took the costly step of discarding its original name in favor of a new one: Sony Corporation. The company’s bank objected to the idea: “It’s taken you ten years since the company’s founding to make the name Tokyo Tsushin Kogyo widely known in the trade. After al this time, what do you mean by proposing such a nonsensical change?” Sony’s Akio Morita responded simply that it would enable the company to expand worldwide, whereas the prior name could not be easily pronounced in foreign lands.24

You’re probably thinking that such a move does not represent something particularly audacious; after al , most smal to midsize companies eventual y look to overseas markets. And it’s not that big of a deal to change a corporate name from Tokyo Tsushin Kogyo to Sony. But look closely at the reason Akio Morita gave for this move, for therein lies an immense BHAG:

Although our company was stil smal and we saw Japan as quite a large and potential y active market. . . it became obvious to me that if we did not set our sights on marketing abroad, we would not grow into the kind of company Ibuka and I had envisioned. We wanted to change the image [around the world]

of Japanese products as poor in quality.25

In the 1950s, “Made in Japan” meant “cheap, junky, poor quality.” In reading through materials on the company, we concluded that Sony not only wanted to be successful in its own right, but to become the company best known for changing the image of Japanese consumer products as being poor quality.26

Having less than a thousand employees and no overseas presence to speak of, this was a nontrivial ambition.

This isn’t the rst example of a BHAG in Sony’s history. In 1952, for example, it sent its limited engineering sta in pursuit of a seemingly impossible goal: to make a “pocketable” radio—a radio that could t in a shirt pocket and could thereby become a pervasive product worldwide.27 In the 1990s, we take such miniaturization for granted, but in the early 1950s, radios depended on vacuum tubes. To build such a miniature radio required long periods of painstaking trial and error and signi cant innovation. No company in the world had yet successful y applied transistor technology to a consumer radio.28

“Let’s work on a transistor radio, whatever the di culties we may face,” proclaimed Masaru Ibuka. “I am sure we can produce transistors for radios.”

When Ibuka told an outside adviser about the bold idea, the adviser responded: “Transistor radio? Are you sure? Even in America transistors are used only for defense purposes where money is no object. Even if you come out with a consumer product using transistors, who could a ord to buy such a machine with such expensive devices?”

“That’s what people think,” responded Ibuka. “People are saying

“That’s what people think,” responded Ibuka. “People are saying that transistors won’t be commercial y viable. . . . This wil make the business al the more interesting.”29 In fact, Sony engineers reveled in the idea of doing something deemed by outsiders as foolhardy—perhaps even impossible—for such a smal company.

Sony made the pocketable radio and ful l ed its dream of creating a product that became pervasive worldwide. (As an outgrowth of this e ort, one of Sony’s scientists made breakthroughs in the development of transistors that eventual y led to a Nobel Prize.)30

Wal-Mart has had a similar pat ern of audacious BHAGs, beginning as far back as Sam Walton’s rst ve-and-dime store in 1945, for which his rst goal

was to “make my lit le Newport store the best, most pro table variety store in Arkansas within ve years.”31 To achieve this goal required more than tripling the sales volume from $72,000 per year to $250,000 per year. The store at ained this goal, becoming the biggest, most pro table store in Arkansas and in the surrounding five states.32

Walton continued to set similarly audacious goals for his organization, decade after decade. In 1977, he set the Big Hairy Audacious Goal of becoming a $1 bil ion company in four years (a more than doubling of the company’s size).33 Wal-Mart didn’t stop there, however, continuing to set bold new targets for itself. In 1990, for example, Sam Walton set a new target: to double the number of stores and increase the sales volume per square foot by 60 percent by the year 2000.34 After publishing this example in an article, we received the fol owing let er from a proud Wal-Mart director:

January 10, 1992

You are correct that Sam Walton articulated a target to double the number of stores and increase the dol ar volume per square foot by 60% by the fiscal year 2000.

The more important point—and what was missed—is that he

The more important point—and what was missed—is that he did set a speci c target of $125 bil ion! At the time, the largest retailer in the world had reached $30 bil ion. For the year ending January 1991, Wal-Mart reached $32.6 bil ion and became the largest retailer in the United States and the world.

The only corporation anywhere which has at ained a volume approaching $125 bil ion is General Motors.

I have been a director of Wal-Mart Stores since 1980 and have complete con dence that the target set by Sam Walton wil be at ained. If someone thought his original target set in 1977 was audacious, he or she must be frightened by the present target.

Sincerely,

Robert Kahn

Certified Management Consultant &

Wal-Mart Director

Now, that’s a BHAG!

Commitment and Risk

It’s not just the presence of a goal that stimulates progress, it is also the level of commitment to the goal. Indeed, a goal cannot be classi ed as a BHAG without a high level of commitment to the goal. Doing the 747, for example, would be a nice goal, maybe even an audacious goal. But the commitment to “build this airplane even if it takes the resources of the entire company!” turns it into a ful - edged BHAG. And, in fact, Boeing su ered terribly in the early 1970s as sales of the “Big Bird” grew more slowly than expected.

During the three-year period from 1969 to 1971, Boeing laid o a total of eighty-six thousand people, roughly 60 percent of its workforce.35 During those di cult days, someone placed a bil board near Interstate 5 in Seat le which read:

Wil the last person

leaving Seattle please turn

out the lights?

We al know now that the 747 became the agship jumbo jet of the airline industry, but the decision looks much di erent from the perspective of the late 1960s. Yet—and this is the key point—

Boeing was wil ing to make the bold move in the face of the risks.

As in Boeing’s case, the risks do not always come without pain.

Staying in the comfort zone does lit le to stimulate progress.

We see a similar pat ern at Walt Disney Company, which has stimulated progress throughout its history by making bold—and often risky—commitments to audacious projects. In 1934, Walt Disney aimed to do something never before done in the movie industry: create a successful ful -length animated feature lm. In creating Snow White, Disney invested most of the company's resources and de ed those in the industry that cal ed it "Disney's Fol y." After al , who would want to see a ful -length feature cartoon? Two decades later, after a string of ful -length animated lms, including Pinocchio, Fantasia, and Bambi, Disney made yet another risky commitment to one of "Walt's screwy ideas": to build a radical y new kind of amusement park, later to become known to al of us as Disneyland. In the 1960s, Disney repeated the process again, with a commitment to ful l Walt's dying dream: EPCOT

center in Florida.36 Walt's brother, Roy, carried the commitment through, according to Michael Eisner:

He virtual y gave his life to ful l his brother's dream of building Walt Disney World. He gave up his much deserved

building Walt Disney World. He gave up his much deserved retirement, infused the park throughout with Disney quality, and saw the project through to completion, personal y cut ing the ribbon on opening day. He died within two months of that momentous event.37

Columbia Pictures, in contrast, did very lit le that was bold, visionary, or risky. It produced B-grade movies during the 1930s and 1940s. During the 1950s and 1960s, it made some good lms, but was apparently unwil ing to make commit ing moves into the future. While Disney was pushing forward into EPCOT, Columbia was being run by people who saw themselves " rst, last, and always. . . as investors, not managers."38 And whereas Columbia was eventual y acquired in the early 1980s, Disney came roaring back after it defeated a set of hostile raiders and pursued new bold adventures, such as Japan Disney and EuroDisney.

IBM, like Disney, pul ed ahead of rival Burroughs at critical junctures in its history via the mechanism of tangible—and, at times, risky—commitments to audacious goals. In particular, we point to IBM's BHAG to reshape the computer industry in the early 1960s. To at ain this BHAG, IBM put itself at risk by making an al -

or-nothing investment in a new computer cal ed the IBM 360. At the time, the 360 was the largest privately nanced commercial project ever undertaken; it required more resources than the United States spent on the Manhat an Project to develop the rst atomic bomb. Fortune magazine cal ed the 360 "IBM's $5,000,000,000

gamble . . . perhaps the riskiest business judgment of recent times."

During the 360 introduction, IBM built up nearly $600 mil ion of work-in-process inventory and almost needed emergency loans to meet payrol .

Furthermore, the 360 would make obsolete most of IBM's existing product lines. Upon public announcement of the 360, demand for IBM's existing products dried up and the company found itself commit ed to a long leap across a deep canyon with no going back.

If the 360 failed, then, wel , it wouldn't be a pret y sight. Wrote Fortune, "It was roughly as though General Motors had decided to

Fortune, "It was roughly as though General Motors had decided to scrap its existing makes and models and o er in their place one new line of cars covering the entire spectrum of demand, with a radical y redesigned engine and an exotic fuel."39 Tom Watson, Jr., wrote:

There wasn't going to be much room for error. It was the biggest, riskiest decision I ever made, and I agonized about it for weeks, but deep down I believed there was nothing IBM

couldn't do.40

Ironical y, Burroughs (IBM's comparison in the study) had a technological lead over IBM in computers. However, when the time came to make a bold

commitment to computers, Burroughs took the conservative approach, choosing instead to concentrate on older lines of accounting machines. Like Douglas Aircraft relative to Boeing, Burroughs then watched as IBM seized control of the market. In describing this phase in Burroughs' history, Ray MacDonald (Burroughs' president at the time), explained, "From 1964 to 1966 our major e ort was to bring pro tability up. The restraints on our computer program were temporary and were caused only by the fact that we needed to immediately improve earnings."41

Again, as discussed in the chapter on core ideology, we see that highly visionary behavior occurs when the company does not view business as ultimately about maximizing pro tability. IBM had to be number one and go for the 360 not just to make money, but because it was IBM. But, of course, IBM wasn't always IBM.

Back in 1924, the Computing Tabulating Recording Company (CTR) was not much more than any of a hundred other fairly average midsize companies trying to make a go of it. In fact, it had been nearly bankrupt three years prior and only survived the 1921

recession through heavy borrowing.42 It primarily sold time clocks and weighing scales, and only had fty-two salesmen who met quota.43 But Thomas J. Watson, Sr., had no interest in seeing CTR

quota. But Thomas J. Watson, Sr., had no interest in seeing CTR

remain an average company. He wanted the company to raise its sights, to become more—much more—than the dreary lit le Computing Tabulating Recording Company. He wanted it to embark on the path of becoming a truly great company of global stature, so he changed the company's name. Today we think nothing of the name "International Business Machines"; but back in 1924, it seemed almost ludicrous. In the words of Thomas J.

Watson, Jr.:

Father came home from work, gave mother a hug, and proudly announced that the Computing Tabulating Recording Company, henceforth would be known by the grand name International Business Machines. I stood in the

doorway of the living room thinking, “That lit le out t?” Dad must have had in mind the IBM of the future. The one he actual y ran was stil ful of cigar-chomping guys sel ing cof ee grinders and butcher scales.44

A name change per se isn’t particularly audacious. But proclaiming itself to be the International Business Machines Corporation in 1924—and to mean it—represents sheer audacity.

(For the record, Burroughs remained the “Burroughs Adding Machine Company” until 1953. We doubt that this name had the same impact on Burroughs employees’ sense of their future as the name International Business Machines had over at IBM.) Even highly conservative Procter & Gamble has periodical y used bold BHAGs. In 1919, for example, P&G set the goal to reach a point where it could provide steady employment for its workers by revolutionizing the distribution system, bypassing wholesalers, and going straight to retailers. (Wholesalers ordered large quantities and then, like a snake digesting a large meal, would lie dormant for months, thus forcing P&G into hire-and- re swings of high and slack demand.) According to Oscar Schisgal in Eyes on Tomorrow: The Evolution of Procter & Gamble, the internal debate on the goal went as fol ows:45

“We would need to increase the number of accounts from 20,000 to over 400,000,” complained the accountants. “Do you realize what that wil do to our accounting costs?”

“We’d have to open hundreds of warehouses around the country,” the distribution team pointed out. “We’d have to hire trucking companies al over the United States to deliver to the retail stores.”

“Wil the wholesalers become so furious when their P&G

business is taken away that they’l start to boycot and refuse to sel anything to stores that deal directly with P&G?” asked some managers. “That could ruin us.”

“How can P&G possibly build a sales sta large enough to visit every lit le grocery store in America?” asked the sales people.

“The sales division would have to be bigger than the U.S.

Army!”

Richard Deupree, P&G president at the time, believed in P&G’s ability to overcome the odds, and he saw the goal of steady employment as worth the risks. (His con dence was partly based on a successful experimental e ort to go directly to retailers in New England.) P&G went forward with the idea and gured out how to make it work. By 1923, P&G had achieved its goal. A newspaper article announced:

On August 1, 1923, a statement of more than usual interest to the world of labor and industry was announced by Procter &

Gamble Company. This was a guarantee of steady employment to the employees of the company in plants and of ices located in thirty cities in the United States. This epoch-making announcement meant that for the rst time in American industry, the thousands of employees of one of the country’s largest corporations were assured of steady employment the year round, regardless of seasonal depressions in business.46

In describing such commitments, Deupree explained: We like to try the impractical and impossible and prove it to be both practical and possible—if it’s the right thing to do in the rst place. . . . You do something you think is right. If it clicks, you give it a ride. If you hit, mortgage the farm and go for broke.47

Colgate, in contrast, showed much less self-initiative than P&G

throughout its history in launching new, audacious, or innovative projects. As with the path straight to retailers, Colgate found itself time and again one step behind P&G, in a reactive fol ow-the-leader mode. (We wil more thoroughly discuss the P&G/Colgate contrast in later chapters.)

The “Hubris Factor”

One of our research assistants observed that highly visionary companies seem to have self-con dence bordering on hubris (the dictionary de nes

hubris as “overbearing pride, con dence, or arrogance”). We came to cal this the “hubris factor.” In mythological terms, you might think of it as taunting the gods.

To set Big Hairy Audacious Goals requires a certain level of unreasonable con dence. It’s not reasonable to commit to the Boeing 707 or 747. The IBM 360 was not prudent, nor was it humble for a midsize butcher-scale sel er to proclaim itself to be the International Business Machines Corporation. It’s not cautious to create Disneyland. It’s not modest to declare, “We wil democratize the automobile.” It was almost foolhardy for Philip Morris—as the runt child of the tobacco industry—to take on R.J. Reynolds. It’s almost absurd to proclaim as a smal company the goal of becoming the company that changes the worldwide image of Japanese products as being of poor quality.

Therein lies one of the maddening paradoxes behind the visionary

Therein lies one of the maddening paradoxes behind the visionary companies.

THE BHAGs looked more audacious to outsiders than to insiders. The visionary companies didn’t see their audacity as taunting the gods. It simply never occurred to them that they couldn’t do what they set out to do.

Let’s make an analogy to mountain climbing. Imagine watching a rock climber scale a cli without a rope; if she fal s, she dies. To the uninformed spectator, the climber looks bold and risk-seeking, if not foolhardy. But suppose that climber is on a climb that to her appears eminently doable, wel within her range of ability. From the climber’s perspective, she has no doubts that, with proper training and concentration, she can make the climb. To her, the climb is not too risky. It does stimulate her to know that if she fal s, she dies; but she has con dence in her ability. The highly visionary companies in set ing bold BHAGs are much like that climber.

THE GOAL, NOT THE LEADER (CLOCK BUILDING, NOT TIME

TELLING)

We wish to emphasize that the key mechanism at work here is not charismatic leadership. Returning to the moon mission example, we cannot deny that John F. Kennedy had a charismatic leadership style, nor can we deny that he deserves much of the credit for seriously proposing the imaginative and bold goal of going to the moon and back before the end of the decade. Nonetheless, Kennedy's leadership style was not the primary mechanism at work for stimulating progress. Kennedy died in 1963; he was no longer present to urge, prod, inspire—to "lead" to the moon. After Kennedy's death, did the moon mission become any less inspiring?

Did it grind to a halt? Did going to the moon cease to provide a

Did it grind to a halt? Did going to the moon cease to provide a sense of national momentum? Of course not! The beauty of the moon mission, once launched, was its ability to stimulate progress regardless of whoever happened to be president. Was it any less exciting to land on the moon with Richard Nixon in o ce than John F. Kennedy? No. The goal itself became the motivating mechanism.

Let's return for a moment to our let er from Robert Kahn, the Wal-Mart director. He wrote the let er on January 10, 1992—the same time that Sam Walton was in the nal months of his bat le with bone cancer, which ended his life on April 5, 1992. Nonetheless, even with Walton's rapidly deteriorating health, Kahn expressed

"complete confidence" that Wal-Mart would meet the goal. Whether Wal-Mart wil become a $125 bil ion company by the year 2000

remains to be seen as we write these words, but the goal stil exists

—pul ing the company forward like a magnet—even without the charismatic leadership of Sam Walton. By set ing such an audacious BHAG, Walton left behind a powerful mechanism for stimulating progress. The goal transcended the leader.

The goal also transcended the leader at Boeing. Certainly, Wil iam Al en played a key role in get ing the company commit ed to the 747, but the goal itself became the stimulus for vigorous movement, not Wil iam Al en. In

fact, T.A. Wilson, Wil iam Al en's successor, became Boeing's president and chief executive o cer in 1968, with the 747 stil in development and the company yet to face the nearly fatal task of surviving the initial slow sales of the big bird. Boeing did not grind to a halt or become lethargic after Al en's retirement, not with the very survival of the company at stake, and certainly not with the most amazing commercial airplane in history yet to be born. Keep in mind that Boeing used this mechanism for stimulating progress long before Wil iam Al en (the P-26, the B-17, and others) and long after the tenure of Wil iam Al en (the completion of the 747, and then the 757 and 767). The repeated commitment to BHAGs has been a key mechanism—part of the

"ticking clock"—at Boeing through (so far) six generations of leadership.

leadership.

In contrast, McDonnel Douglas' lack of forward progress relative to Boeing can be traced in large part to the personal leadership style of James McDonnel . Business Week ran an article on McDonnel Douglas in 1978 entitled "Where Management Style Sets Strategy," wherein it detailed how "Mr. Mac's" style of "measuring every risk careful y, being highly conservative . . . produce[s] a strategy without debating it around the table."48 At Boeing, audacious commitments to bold, daring projects became a characteristic of the institution—regardless of the leader in charge.

At McDonnel Douglas, the risk-averse, stick-in-the-mud approach to commercial aircraft was a characteristic of the individual leader in charge. Again, we see clock building at Boeing and time tel ing at McDonnel Douglas (and not even good time tel ing, at that).

Sony also made the use of BHAGs an institutionalized habit—a way of life. Nick Lyons, who delved into the inner workings of Sony's management processes for his book The Sony Vision, wrote:

"Target. A word I heard repeated over and over—in English—

[inside Sony].”49 Dr. Makato Kikuchi, Sony’s director of research in the mid-1970s, described to Lyons the importance of this embedded process (paraphrased):

Though it is widely rumored that Sony spends a vastly greater proportion of gross sales on research than other rms, this is simply not so. . . . The di erence between our e orts and those of other Japanese companies lies not in the level of technology, or the quality of the engineers, or even in the amount of money budgeted for development (about 5% of sales). The main di erence lies in . . . the establishment of mission-oriented research and proper targets. Many other companies give their researchers ful freedom. We don’t; we nd an aim, a very real and clear target and then establish the necessary task forces to get the job done. Ibuka taught us that, once the commitment to go ahead is made, never give up. This pervades al the research and development work at Sony.50

BHAGs and the “Postheroic Leader Stal ”

Corporations regularly face the dilemma of how to maintain momentum after the departure of highly energetic leaders (often founders). We saw this “postheroic leader stal ” at a number of comparison companies in our study: Burroughs (after Boyer), Chase Manhat an (after Rockefel er), Columbia (after Cohn), Howard Johnson (after Johnson, Sr.), Melvil e (after Melvil e), TI (after Haggarty), Westinghouse (after George Westinghouse), and Zenith (after MacDonald). We didn’t see this pat ern as much in the visionary companies—only two clear cases stand out: Walt Disney (after Walt Disney) and Ford Motor (after Henry Ford, Sr.). The visionary companies o er a partial solution: Create BHAGs that take a life of their own and thereby act as a stimulus through multiple generations of leadership. (If you are a soon-to-retire chief executive, we encourage you to take a hard look at this lesson. Does your company have a BHAG to which it is commit ed and that wil provide momentum long after you’re gone? And, even more important, does it have the ability to continual y set bold new goals for itself long into the future?)

In examining Citicorp, for example, we noticed that the company continual y used bold, audacious goals to move itself forward through multiple generations of leadership. In the 1890s, City Bank (as Citicorp was then

named) was an unspectacular regional bank with only a president, a cashier, and a handful of employees. Yet president James Stil man set the almost ludicrous (but certainly stimulating) aim “to become a great national bank.”51 A nancial journalist wrote in 1891:

[He] dreams of a great national bank, and thinks he can make one of the City Bank. It is what he is trying to do, it is what occupies his mind, and animates his actions. He is running his bank not toward dividends, but towards an ideal. . . to make it great in domestic and in international nance: that is the dream of James Stil man.”52

Although we can certainly trace the conception of this BHAG to Stil man himself, it took a life of its own and propel ed the company forward long into future generations. Frank Vanderlip, Stil man’s successor as president, wrote in 1915 (a quarter of a century after Stil man’s “dream” and six years after Stil man moved to Paris in retirement):

I am perfectly con dent that it is open to us to become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been.53

A bold goal indeed, especial y for a bank that a year earlier had only “eight vice presidents, ten junior o cers, and fewer than ve hundred other employees . . . at a single location on Wal Street.”54

Then, in the next generation, Charles Mitchel echoed the same go-forward tune in a 1922 speech to employees: “We are on our way to bigger things. The National City Bank’s future is brighter than it has ever been. . . We are get ing ready now to go ful speed ahead.”55 Going “ful speed ahead”—in pursuit of the great ambitions rst dreamed in the late 1880s—City Bank grew from $352 mil ion total assets in 1914 to $2.6 bil ion of assets in 1929, an average annual growth rate of over 35 percent.

City Bank, like most banks, struggled through the 1930s, but after World War I it ew forward—through ve further generations of leadership—with heightened energy toward Stil man and Vanderlip’s ambition of becoming “the most far reaching nancial institution there has ever been.” George

Moore (president from 1959 to 1967) sounded a lot like his predecessors of half a century earlier when he said:

Around 1960 . . . [we decided that] we would seek to perform every useful financial service, anywhere in the world.56

Note the consistency across the generations. Yes, each generation had a chief executive. And yes, the original Citicorp dream traces back to an original architect. But the goal itself transcended that architect, and the predisposition to go for the audacious became an embedded pat ern in the institution.

Chase Manhat an (Citicorp's comparison in the study) had similar ambitions and, in fact, the two banks vied with each other as erce rivals. Throughout the twentieth century, Citicorp and Chase were evenly matched, racing side by side. During the 1960s, the two banks bat led with each other for end-of-year rst-place honors in terms of assets and from 1954 to 1969 they ran almost dead even.57

Not until 1968, in fact, did Citicorp pul ahead of Chase for good, eventual y reaching twice the size of Chase. We acknowledge that Citicorp stumbled in the late 1980s and early 1990s. But so did Chase, and they had a lot of company, as a number of commercial banks had hard times in the 1980s.

Yet, even with their similarities, there was a signi cant di erence between Citicorp and Chase in the tone and strategies supporting their ambitious goals—a di erence that perhaps explains in part their di erent trajectories after 1968. David Rockefel er became president of Chase in 1960, and the goal to beat Citibank was viewed more as Rockefel er's goal than Chase's goal.

The Citicorp chief executives, unlike those at Chase, used primarily organizational (clock-building) strategies in their stewardship of the bank toward its goals. Stil man concentrated on management succession and organization structure. Vanderlip commented that "the one limitation that I can see, lies in the quality of management" and he put most of his e ort into organization design and initiated a management development program.58 George Moore focused rst and foremost on making

“Citicorp an institution” built largely around procedures for nding, training, and promoting personnel. “Without the capable people these procedures developed,” he wrote, “none of our goals would have been at ainable.”59 Chase, in contrast, concentrated primarily

have been at ainable.” Chase, in contrast, concentrated primarily on market and product strategies (time tel ing) rather than clock-building strategies.

Like Boeing and Citicorp, Motorola presents an excel ent example of BHAGs as part of a multigenerational ticking clock. Founder Paul Galvin often used BHAGs to push his engineers to do the impossible. When Motorola moved into the television market in the late 1940s, for example, Galvin set a chal enging BHAG for the television group: to pro tably sel one hundred thousand TVs in the first year at a price of $179.95.

“Our new plant hasn’t nearly the capacity for that kind of production,” exclaimed one of his managers. “We’l never sel that quantity; that would make our industry position third or fourth, and the best we’ve ever been in home radio is seventh or eighth,”

complained another. “We’re not even sure we can break $200 [in cost],” said a production engineer.

“We’l sel them,” Galvin responded. “I don’t want to see any more cost sheets until you provide me with a pro t at that price and that volume. We’l work ourselves into it.”60

Motorola did indeed rise to fourth in the television industry within the year. But even more important, Galvin instil ed an institutional drive for progress that resulted in a repeating pat ern of BHAGs within the company. In grooming his son for the CEO

job, he continual y emphasized the importance of “keeping the company moving” and that vigorous movement in any direction is bet er than sit ing stil ; always have something to shoot for, he advised.61

Decades after his death in 1959, Galvin’s company stil uses BHAGs, including the goal of becoming a major force in advanced electronics, the

goal of at aining six-sigma quality performance and the goal of winning the Malcolm Baldrige Quality Award. Galvin's son and successor used the word "renewal" to capture the idea of continual transformations, often (although not exclusively) at ained through commitments to audacious projects. Bob Galvin then passed along to the next generation of leadership the imperative

passed along to the next generation of leadership the imperative that "at times we must engage in an act of faith that key things are doable that are not provable."62

The same lit le company that began life doing B-bat ery eliminator repairs for Sears radios and making jerry-built car radios has continual y propel ed itself forward via bold goals and reinvented itself over and over again, far beyond the life of its founder. That same lit le company has moved far from radios and TVs. That same company eventual y created the powerful M68000

microprocessors that Apple Computer selected as the brains of the Macintosh Computer on which we're writing this book. And, as we write these very words, that same company moves forward with the biggest BHAG of its life to date: the task of launching Iridium, a $3.4 bil ion commercial gamble taken in joint venture with other companies to create a worldwide satel ite system that would al ow phone cal s between any two points on earth.63

Zenith, like Motorola, did have a few BHAGs in its early history: the goal to make FM radio a pervasive reality, early commitment to be a major player in televisions, and an expensive bet on pay TV.

But—and this is the crucial point—Zenith, unlike Motorola, did not display an organizational propensity for set ing bold, audacious goals after the death of its founder in 1958. By the early 1970s,

"innate cautiousness" pervaded Zenith, as described by its control er in 1974:

It's hard to explain why a decision is made not to do something.

There are a number of reasons behind it—including innate cautiousness. For one thing, we've always had our hands ful with [our current markets] and we've always tended to stick with what appeared to be the biggest payo and what we knew how to do best. . . . We didn't feel we could compete . . . in those [new] markets unless we were wil ing to sacri ce some of our margin, and we were unwil ing to do that. We are basical y a U.S. company and likely to stay that way.64

Zenith chief executive John Nevin echoed the same view in talking about the company's slow move into new technologies, like solid-state electronics: "I think you also have to say that Zenith has been more cautious than some of its competitors in bringing innovations to market. . . We are now involved in an extraordinary e ort to bring [solid-state] to market, but we are in doubt as to whether it wil come to fruition."

Zenith's Commander McDonald, unlike Motorola's Paul Galvin, did not leave behind a company with the ability to continual y reinvent itself with bold goals. Commander McDonald was a great leader—a great time tel er—but he died a long time ago. Paul Galvin's company, on the other hand, lives and thrives thirty- ve years after his death. Galvin built a clock.

GUIDELINES FOR CEOS, MANAGERS, AND ENTREPRENEURS

Although we've writ en this chapter primarily from a corporate perspective, BHAGs can be applied to stimulate progress at any level of an organization. Individual product line managers at P&G

frequently set BHAGs for their brands. Nordstrom systematical y sets BHAGs al up and down the company—from regions, to stores, to departments, to individual salespeople. 3M product champions thrive on overcoming al odds, skeptics, and naysayers to prove that their quirky inventions can make it in the market. An organization can have any number of BHAGs. It does not need to limit itself to only one BHAG at a time; Sony and Boeing, for instance, usual y pursued multiple BHAGs simultaneously, often at di erent levels of the corporation.

BHAGs are particularly wel suited to entrepreneurs and smal companies. Recal Sam Walton and his goal to make his rst dime store the most

successful in Arkansas within ve years. Recal Sony’s goal to make a “pocketable radio” in its early years. Or Tom Watson, Sr.’s goal to transform his tiny one-building company into International Business Machines Corporation. Indeed, most entrepreneurs have a built-in BHAG: To just get o the ground and

entrepreneurs have a built-in BHAG: To just get o the ground and reach a point where survival is no longer in question is huge and audacious for most start-ups.

We’ve covered most of the key points about BHAGs as we’ve moved through the text of this chapter. Here are a few key take-away points you might want to keep in mind as you consider BHAGs for your own organization:

• A BHAG should be so clear and compel ing that it requires lit le or no explanation. Remember, a BHAG is a goal—like climbing a mountain or going to moon—not a “statement.” If it doesn’t get people’s juices going, then it’s just not a BHAG.

• A BHAG should fal wel outside the comfort zone. People in the organization should have reason to believe they can pul it o , yet it should require heroic e ort and perhaps even a lit le luck—as with the IBM 360 and Boeing 707.

• A BHAG should be so bold and exciting in its own right that it would continue to stimulate progress even if the organization’s leaders disappeared before it had been completed—as happened at Citibank and Wal-Mart.

• A BHAG has the inherent danger that, once achieved, an organization can stal and drift in the “we’ve arrived”

syndrome, as happened at Ford in the 1920s. A company should be prepared to prevent this by having fol ow-on BHAGs. It should also complement BHAGs with the other methods of stimulating progress.

• Final y, and most important of al , a BHAG should be consistent with a company’s core ideology.

Preserve the Core and Stimulate Progress

BHAGs alone do not make a visionary company. Indeed, progress alone—no mat er what the mechanism used to stimulate progress—

does not make a visionary company. A company should be careful

does not make a visionary company. A company should be careful to preserve its core while pursuing BHAGs.

For example, the 747 was an incredibly risky venture but along the way, Boeing maintained its core value of product safety and applied the most conservative safety standards, testing, and analysis ever to a commercial aircraft. No mat er what the nancial pressures, Walt Disney preserved its core value of fanatical at ention to detail while working on Snow White, Disneyland, and Disney World. Merck, in keeping with its core value of imagination, sought preeminence primarily by creating new breakthrough innovations, not by creating me-too products. Jack Welch at GE made it clear that at aining number one or number two in a market at the expense of integrity would be unacceptable. Citicorp continual y reinforced its belief in meritocracy and internal entrepreneurship throughout its expansive quest to become the “most far-reaching world nancial institution that has ever been.” Motorola never abandoned its basic belief in the dignity of and respect for the individual throughout al of its big, hairy, self-selected chal enges.

Furthermore, the visionary companies didn’t launch blindly toward any random BHAG, but only toward those that reinforced their core ideologies and re ected their self-concept. Notice the link between core and BHAG in the fol owing list:

BHAG(s) to

Core to

Stimulate

Preserve

Progress

Being on the

leading edge

Bet the pot

of aviation;

(Boeing) on the B-17,

being

707, 747.

pioneers;

risk-taking

Seek

Commit to a

superiority in

$5 bil ion

al we

gamble on

undertake;

(IBM)

the 360;

Spend a lot of

meet the

time making

emerging

customers

needs of our

happy.

customers.

We are about

cars—

“Democratize

especial y

(Ford)

the

cars for the

automobile.”

average

person.

Tapping the

“latent

Invent a way

creative

to sel

power within

100,000 TVs

us”; self-

at $179.95;

renewal;

At ain six-

continual

(Motorola)

sigma

improvement;

quality; win

honorably

the Baldridge

serve the

Award;

community

launch

via great

Iridium.

products.

Slay Goliath

Winning—

and become

being the best

the front-

and beating

runner in the

others;

(Philip

tobacco

Personal

Morris)

industry,

freedom of

despite the

despite the

choice is

social forces

worth

against

defending.

smoking.

Change the

Elevation of

worldwide

the Japanese

image of

culture and

Japanese

national

(Sony)

products as

status; being a

poor quality;

pioneer,

create a

doing the

pocketable

impossible.

transistor

radio.

“Bring

happiness to

Build

mil ions”;

Disneyland—

fanatical

and build it

at ention to

(Disney) to our image,

detail;

not industry

creativity,

standards.

dreams,

imagination.

Preserving

and

Become the

improving

preeminent

human life;

drug maker

medicine is

worldwide,

for the

(Merck)

via massive

patient, not

R&D and

for the

new products

new products

profits;

that cure

imagination

disease.

and

innovation.

Revolutionizing the railroad business would certainly have been a BHAG for Ford in 1909; but Ford wasn't about railroads, it was about cars. Creating the cheapest radios in history, regardless of quality or innovation, would certainly have been a BHAG for Sony in 1950, but it wouldn't have t with Sony's self-image as pioneers of innovation and key players in the task of elevating Japan's status in the world. Reinventing itself entirely away from the tobacco industry after the Surgeon General's reports would certainly have been a BHAG for Philip Morris in the 1960s, but how would it have t with the company's self-conception as the de ant, ercely independent, free-thinking, free-choosing, individualistic Marlboro cowboy? It wouldn't.

Yes, any BHAG exciting to people inside your company would stimulate change and movement. But the BHAGs should also be a powerful statement about the company's ideology. In fact, BHAGs can help to reinforce one of the key sets of mechanisms for preserving the core ideology: a cult-like culture, the subject of our next chapter. To defy the odds, to take on big hairy chal enges—

especial y if rooted in an ideology—does much to make people feel that they belong to something special, elite, dif erent, bet er.

We return once again to a key aspect of a visionary company: the powerful interplay between core ideology and the drive for progress which exist together like the yin and yang of Chinese dualistic philosophy. Each element complements and reinforces the other. Indeed, the core ideology enables progress by providing a base of continuity from which a visionary company can launch the corporate equivalent of the moon mission; likewise, progress enables the core ideology, for without change and movement forward, the company wil eventual y cease to be viable. Again, it's

forward, the company wil eventual y cease to be viable. Again, it's not either core or progress. It's not even a nice balance between core and progress but rather two powerful elements, inextricably linked and both working at ful force to the ultimate bene t of the institution. A GE employee eloquently described the dynamic interplay between core and progress while discussing the company's BHAG to "become #1 or #2 in every market we serve and revolutionize this company to have the speed and agility of a smal enterprise":

"GE . . . We bring good things to life." Most wouldn't admit it, but everyone at GE gets chil s when they hear that jingle. The simple, corny phrase captures how they feel about the company.

. . . It means jobs and growth for the economy, quality and service for the customer, bene ts and training for the employee, and chal enge and satisfaction for the individual. It means integrity, honesty, and loyalty at al levels. And without this reservoir of values and commitment, Welch could not have pul ed of his revolution. [emphasis hers]65

Preserve
the Core
Stimulate
Progress

Chapter 6

Cult-Like Cultures

Now, I want you to raise your right hand—and remember what we say at Wal-Mart, that a promise we make is a promise we keep—and I want you to repeat after me: From this day forward, I solemnly promise and declare that every time a customer comes within ten feet of me, I wil smile, look him in the eye, and greet him. So help me Sam.

SAM WALTON, TO OVER ONE HUNDRED THOUSAND WAL-MART

ASSOCIATES VIA TV SATELLITE LINK-UP, MID-1980S1

IBM is real y good at motivating its people; I see that through Anne. [She] might be brainwashed by some people's standards, but it's a good brainwashing. They real y do instil a loyalty and drive to work.

SPOUSE OF IBM EMPLOYEE, 19852

So why do you want to work at Nordstrom?" the interviewer asks.

"Because my friend, Laura, tel s me it's the best place she's ever worked," Robert responds. "She gushes about the excitement of working with the very best—being part of the elite of the elite.

She's almost a missionary for you folks. Very proud to cal herself a Nordstrom employee. And she's been rewarded wel . Laura started in the stockroom eight years ago and now she gets to manage an entire store; she's only twenty-nine.3 She told me that people here make a lot more than salespeople at other stores, and that the best salespeople working on the floor can make over $80,000 a year."*4

"Yes, it's true that you can make more money here than working at other department stores. Our salespeople general y make almost double the national average for retail sales clerks—and a few make a lot more than that.5 But you know, of course, not everyone has what it takes to real y make

it here as a member of the Nordstrom corporate family," explains the interviewer. "We're selective, and a lot don't make it. You prove yourself at every level, or you leave."6

"Yes. I've heard that 50 percent of new hires are gone after one year."7

"Something like that. Those who don't like the pressure and the hard work, and who don't buy into our system and values, they're gone. But if you have the drive, initiative, and—above al else—the ability to produce and serve the customer, then you'l do wel .8 The key question is whether Nordstrom is right for you. If not, you'l probably hate it here, fail miserably, and leave."9

"What positions would I be eligible for?"

"The same as every other new hire—you start at the bot om, working the stockroom and the sales floor."

"But I have a bachelor's degree, Phi Beta Kappa, from University

"But I have a bachelor's degree, Phi Beta Kappa, from University of Washington. Other companies wil let me begin as a management trainee."

"Not here. Everybody starts at the bot om. Mr. Bruce, Mr. Jim, and Mr. John —the three Nordstrom brothers that make up the chairman's o ce—they al started on the oor. Mr. Bruce likes to remind us that he and his brothers were al raised sit ing on a shoe sales stool in front of the customer; it's a literal and gurative posture that we al keep in mind.10 You get a lot of operational freedom here; no one wil be directing your every move, and you're only limited by your ability to perform (within the bounds of the Nordstrom way, of course). But if you're not wil ing to do whatever it takes to make a customer happy—to personal y deliver a suit to his hotel room, get down on your knees to t a shoe, force yourself to smile when a customer is a real jerk —then you just don't belong here, period. Nobody tel s you to be a customer service hero; it's just sort of expected."11

Robert took the job at Nordstrom, excited at the prospect of joining something special, thril ed to be at the place to work. He was proud to receive personalized professional business cards, rather than a name tag.12 The handout depicting Nordstrom's

“Company Structure” as an upside down pyramid made him feel even more important.13

He also received a copy of Nordstrom’s employee handbook, which consisted of a single ve-by-eight-inch card and read, in its entirety:14

WELCOME TO NORDSTROM

We’re glad to have you with our Company.

Our number one goal is to provide

outstanding customer service.

Set both your personal and professional goals high.

We have great confidence in your ability to achieve them.

Nordstrom Rules:

Rule #1: Use your good

judgment in al situations.

There wil be no additional rules.

Please feel free to ask your department manager, store manager or division general manager

any question at any time.

During his rst few months, Robert became immersed in the world of a dedicated “Nordie,” as many employees cal ed themselves.15 He found that he spent most of his time at the store, at Nordie functions, or socializing with other Nordies; they became his support group.16 He heard dozens of stories about heroic customer service: the Nordie who ironed a new-bought shirt for a customer who needed it for a meeting that afternoon; the Nordie who cheerful y gift wrapped products a customer bought at Macy’s; the Nordie who warmed customers’ cars in winter while the customers nished shopping; the Nordie who personal y knit a shawl for an elderly customer who needed one of a special length that wouldn’t get caught in the spokes of her wheelchair; the Nordie who made a last-minute delivery of party clothes to a frantic hostess; and even the Nordie who refunded money for a set of tire chains—although Nordstrom doesn’t sel tire chains.17 He learned about the notes cal ed “heroics” that Nordstrom salespeople wrote about each other, and that were used—along with customer let ers and employee thank-you notes to customers—to determine which stores should receive monthly prizes for the best service.18

His manager explained about the al -important customer let ers:

“Customer let ers are real important around here. You never, ever want to get a bad one; that’s a real sin. But good ones can lead you to become a ‘Customer Service Al Star.’ You think Phi Beta Kappa was a big deal, but to become a Customer Service Al Star, now that’s a real y big deal. You get a

personal handshake from one of the Nordstrom brothers, your picture goes on the wal , and you get

the Nordstrom brothers, your picture goes on the wal , and you get prizes and discounts. It makes you the top of the top.19 And if you become a productivity winner, you become a Paceset er, complete with new business cards so designated and 33 percent merchandise discounts.20 Only our very top people become Paceset ers."

"How do I become a Paceset er?" Robert asked.

"Simple. You set very high sales goals, and then you exceed them,"21 she explained. Then she asked, "By the way, what are your sales goals for today?"22

Sales goals. Productivity. Achievement. Robert noticed

"reminders" posted on the wal s in the employee back rooms:

"Make a daily to do list!" or "List goals, set priorities!"23 or "Don't let us down!" or "Be a top dog paceset er; Go for the milk bones!"24

He learned quickly about the al important SPH (sales per hour) calculation. "If you exceed your target SPH, you'l get a ten percent commission on net sales," his manager explained. "If not, you'l just get your base hourly wage rate. And if you have a high SPH, you'l get to work more at ractive hours and have bet er odds of being promoted. You can track your SPH on computer printouts we keep in the back o ce. We list al the SPHs in rank order, so you can keep track and make sure you're not fal ing behind. Your SPH wil also appear on your pay stub."25

At the end of his rst pay period, employees gathered around a bul etin board in the back room on which was posted a ranking of SPH by employee number; a few had dropped below a red line marked on the paper.26 Robert quickly understood that he should do al that he could to avoid fal ing behind. He woke up one night in a cold sweat from a vivid nightmare of walking into the back room and seeing his name at the bot om of the list. He worked furiously during the day to not be left behind by his peers.27

Soon after the rst pay period, Robert noticed that one of the salespeople in his area had left work early. “Where’s John?” he asked.

asked.

“Sent home for the day . . . penalized for get ing irritated with a customer,” said Bil , a fel ow salesperson who had won a recent Smile Contest and thereby got his picture on the wal .28 “It’s kind of like being sent to your room without dinner. He’l be back tomorrow, but they’l be watching him closely for a few weeks.”29

At age twenty-six, Bil was already a ve-year Nordstrom veteran, a Paceset er, and an Al Star. Bil clearly had that rare “what it takes” quality to thrive at Nordstrom. “When people shop at Nordstrom, they deserve the best at itude,” he explained. “I always have my smile, for anybody, everybody.”30 Bil dressed almost exclusively in Nordstrom clothes and, in addition to the Smile Contest, he’d also won a “Who Looks the Most Nordstrom Contest”31 the prior year. He basked in the glory of public praise one day as the store manager read aloud a let er about Bil from a satis ed customer—to the applause and cheers of fel ow employees.

Bil loved his job at Nordstrom, always quick to point out,

“Where else could I get paid so wel and have so much autonomy?

Nordstrom is one of the rst places I’ve ever felt like I real y belong to something special. Sure, I work real y hard, but I like to work hard. No one tel s me what to do, and I feel I can go as far as my dedication wil take me. I feel like an entrepreneur.”32

Bil had earlier moved—along with over a hundred other Nordstrom people—from Nordstrom stores on the West Coast to one of its new store openings on the East Coast.33 “We wouldn’t want non-Nordies to open a new store, even if it’s al the way across the country,” he explained. He described the excitement of opening day: “Employees were clapping. Customers came in and they were clapping, too. There was so much energy and adrenaline owing—it was an emotional ‘look what I’m part of’ atmosphere that made you feel real y special.”34

Bil was a great Nordie role model for Robert. He told Robert about how he at ended a Nordstrom motivational seminar, where he learned to write upbeat “a rmations,” which he repeated over

he learned to write upbeat “a rmations,” which he repeated over and over to himself: “I feel proud to be a Paceset er.” Bil had the goal of becoming a store manager, so he chanted to himself the a rmation “I enjoy being a store manager at Nordstrom . . . I enjoy being a store manager at Nordstrom . . . I enjoy being a store manager at Nordstrom.”35

Bil explained that being a Nordstrom manager would be tough and demanding. He described how store managers must publicly declare their sales goals at quarterly meetings. “Mr. John, he sometimes wears a sweater with a giant N on the front and stirs up the crowd. Then someone unveils the sales target for each store set by a secret commit ee. I’ve heard that those managers who set goals below those set by the secret commit ee get booed; those who set goals higher than the commit ee get cheered.”36

Bil was also a great source of information and guidance about the Nordstrom Way. “Be very careful about talking to outsiders,” Bil cautioned. “The company’s very sensitive about its privacy and likes to keep tight control on what information goes to the outside world. That comes from the very top. How we do things around here is not anybody else’s business.”37

“By the way,” Bil asked as they were closing up shop late one evening, “did you know that we had a ‘secret shopper’ in here today?”

“A what?”

“A secret shopper. That’s a Nordstrom employee who pretends to be a customer—secretly—and checks on your demeanor and service.

She came by you today. I think you did ne, but watch the frown.

You have a tendency to frown when you’re working hard. Just remember to smile; don’t frown. A frown can be a black mark in your file.”38

“Rule number two,” Robert thought to himself. “Don’t frown, be happy.”

Over the fol owing six months, Robert found himself increasingly uncomfortable at Nordstrom. When he found himself at a seven

uncomfortable at Nordstrom. When he found himself at a seven A.M. department meeting with Nordies chanting “We’re number one!” and “We want to do it for Nordstrom!”39 he thought back to the opening paragraph of the write-up on Nordstrom in The Best 100 Companies to Work for in America, which said, “If you don’t like to work in a gung-ho atmosphere where people are always revved up, then this is not the place for you.”40 He found himself doing okay—never fal ing to the bot om of the SPH listings—but, tel ingly, not great. He’d never received a handshake from Mr. Jim or Mr. John or Mr. Bruce. He had not become a Paceset er or an Al Star, and feared that he would once again frown for a secret shopper or that he might get a negative customer let er. And worst of al , he was being left behind by those who were just much more Nordstrom than he. They had the right Nordstrom stu ; he didn’t.

He just didn’t fit.

Robert quit eleven months into his career at Nordstrom. A year later, however, he was thriving as a department manager at another store. “Nordstrom was a great experience, but it wasn’t for me,” he explained. “I know some of my friends are incredibly happy there; they real y love it. And there’s no doubt about it—Nordstrom’s a real y great company. But I fit bet er here.”

“EJECTED LIKE A VIRUS!”

When we began our research project, we speculated that our evidence would show the visionary companies to be great places to work (or at least bet er places to work than the comparison companies). However, we didn’t nd this to be the case—at least not for everyone. Recal how wel Bil and Laura t and ourished at Nordstrom; for them, it was a truly great place to work. But notice how Robert just couldn’t ful y buy in; for him, Nordstrom was not a great place to work. Nordstrom is only a great place to work for those truly dedicated—and wel suited to—the Nordstrom way.

The same is true for many of the other visionary companies that we studied. If you're not wil ing to enthusiastical y adopt the HP

we studied. If you're not wil ing to enthusiastical y adopt the HP

Way, then you simply don't belong at HP. If you're not comfortable buying into Wal-Mart's fanatical dedication to its customers, then you don't belong at Wal-Mart. If you're not wil ing to be

"Procterized," then you don't belong at Procter & Gamble. If you don't want to join in the crusade for quality (even if you happen to work in the cafeteria), then you don't belong at Motorola and you certainly can't become a true "Motorolan."41 If you question the right of individuals to make their own decisions about what to buy (such as cigaret es), then you don't belong at Philip Morris. If you're not comfortable with the Mormon-in uenced, clean-living, dedication-to-service atmosphere at Marriot , then you'd bet er stay away. If you can't embrace the idea of "wholesomeness" and

"magic" and "Pixie dust," and make yourself into a "clean-cut zealot,"42 then you'd probably hate working at Disneyland.

We learned that you don't need to create a "soft" or "comfortable"

environment to build a visionary company. We found that the visionary companies tend to be more demanding of their people than other companies, both in terms of performance and congruence with the ideology.

"VISIONARY," we learned, does not mean soft and undisciplined. Quite the contrary. Because the visionary companies have such clarity about who they are, what they're al about, and what they're trying to achieve, they tend to not have much room for people unwil ing or unsuited to their demanding standards.

During a research team meeting, one of our research assistants made the observation, "Joining these companies reminds me of joining an extremely tight-knit group or society. And if you don't t, you'd bet er not join. If you're wil ing to real y buy in and

t, you'd bet er not join. If you're wil ing to real y buy in and dedicate yourself to what the company stands for, then you'l be very satis ed and productive—probably couldn't be happier. If not, however, you'l probably ounder, feel miserable and out-of-place, and eventual y leave—ejected like a virus. It's binary: You're either in or you're out, and there seems to be no middle ground. It's almost cult-like."

The observation rang true enough that we decided to examine the literature on cults and see if the visionary companies have indeed had more characteristics in common with cults than the comparison companies. We found no universal y accepted de nition of cult in the literature; the most common de nition is that a cult is a body of persons characterized by great or excessive devotion to some person, idea, or thing (which certainly describes many of the visionary companies). Nor did we nd any universal y accepted checklist of what separates cults from noncults. We did, however, nd some common themes, and in particular we found four common characteristics of cults that the visionary companies display to a greater degree than the comparison companies.43

• Fervently held ideology (discussed earlier in our chapter on core ideology)

• Indoctrination

• Tightness of fit

• Elitism

Look at Nordstrom versus Melvil e. Notice the heavy-duty indoctrination processes at Nordstrom, beginning with the interview and continuing with Nordie customer service heroic stories, reminders on the wal s, chanting a rmations, and cheering. Notice how Nordstrom gets its employees to write heroic stories about other employees and engages peers and immediate supervisors in the indoctrination process. (A common practice of cults is to actively engage recruits in the socializing of others into the cult.)

actively engage recruits in the socializing of others into the cult.) Notice how the company seeks to hire young people, mold them into the Nordstrom way from early in their careers, and promote only those who closely re ect the

core ideology. Notice how Nordstrom imposes a severe tightness of t—employees that t the Nordstrom way receive lots of positive reinforcement (pay, awards, recognition)—and those who don't t get negative reinforcement (being "left behind," penalties, black marks). Notice how Nordstrom draws clear boundaries between who is "inside" and who is "outside" the organization, and how it portrays being

"inside" as being part of something special and elite—again, a common practice of cults. Indeed, the very term "Nordie" has a cultish feel to it. We found no evidence that Melvil e cultivated and maintained through its history anywhere near such clear and consistent use of practices like these.

Nordstrom presents an excel ent example of what we came to cal

"cultism"—a series of practices that create an almost cult-like environment around the core ideology in highly visionary companies. These practices tend to vigorously screen out those who do not t with the ideology (either before hiring or early in their careers). They also instil an intense sense of loyalty and in uence the behavior of those remaining inside the company to be congruent with the core ideology, consistent over time, and carried out zealously.

Please don't misunderstand our point here. We're not saying that visionary companies are cults. We're saying that they are more cultlike, without actual y being cults. The terms "cultism" and "cultlike" can conjure up a variety of negative images and connotations; they are much stronger words than "culture." But to merely say that visionary companies have a culture tel s us nothing new or interesting. Al companies have a culture! We observed something much stronger than just "culture" at work. "Cultism" and "cult-like"

are descriptive—not pejorative or prescriptive—terms to capture a set of practices that we saw more consistently in the visionary companies than the comparison companies. We're saying that these characteristics play a key role in preserving the core ideology.

characteristics play a key role in preserving the core ideology.

An analysis of the visionary versus comparison companies revealed the fol owing (see Table A.6 in the Appendix 3):

• In eleven out of eighteen pairs, the evidence shows stronger indoctrination into a core ideology through the history of the visionary company than the comparison company.*

• In thirteen out of eighteen pairs, the evidence shows greater tightness of t through the history of the visionary company than in the comparison company—people tend to either t wel with the company and its ideology or tend to not t at al ("buy in or get out").

• In thirteen out of eighteen pairs, the evidence shows greater elitism (a sense of belonging to something special and superior) through the history of the visionary company.

• Summing up across al three dimensions (indoctrination, tightness of t, and elitism), the visionary companies have shown greater cultism through history than the comparison companies in fourteen out of eighteen pairs (four pairs are indistinguishable).

The fol owing three examples—IBM, Disney, and Procter &

Gamble—show these characteristics at work in the development of visionary companies.

IBM'S RISE TO GREATNESS

Thomas J. Watson, Jr., former IBM chief executive, described the environment at IBM during its rise to national prominence in the rst half of the twentieth century as a "cult-like atmosphere."44

This atmosphere traces back to 1914, when Watson's father (Thomas J. Watson, Sr.) became chief executive of the smal , struggling company, and consciously set about to create an organization of dedicated zealots.* Watson plastered the wal with

organization of dedicated zealots. Watson plastered the wal with slogans: "Time lost is time gone forever"; "There is no such thing as standing stil ";

“We must never feel satis ed”; “We sel service”; “A company is known by the men it keeps.” He instituted strict rules of personal conduct—he required salespeople to be wel groomed and wear dark business suits, encouraged marriage (married people, in his view, worked harder and were more loyal because they had to provide for a family), discouraged smoking, and forbade alcohol.

He instituted training programs to systematical y indoctrinate new hires into the corporate philosophy, sought to hire young and impressionable people, and adhered to a strict promote-from-within practice. Later, he created IBM-managed country clubs to encourage IBMers to socialize primarily with other IBMers, not the outside world.45

Similar to Nordstrom, IBM sought to create a heroic mythology about employees who best exempli ed the corporate ideology and placed their names and pictures—along with stories of their heroic deeds—in company publications. A few exemplars even had corporate songs composed in their honor!46 And, also like Nordstrom, IBM emphasized the importance of individual e ort and initiative within the context of the col ective ef ort.

By the 1930s, IBM had ful y institutionalized its indoctrination process and created a ful - edged “schoolhouse” that it used to socialize and train future o cers of the company. In Father, Son &

Co., Watson, Jr., wrote:

Everything about the school was meant to inspire loyalty, enthusiasm, and high ideals, which IBM held out as the way to achieve success. The front door had [IBM’s ubiquitous] mot o

“THINK” writ en over it in two foot high let ers. Just inside was a granite staircase that was supposed to put students in an aspiring frame of mind as they stepped up to the day’s classes.47

Veteran employees in “regulation IBM clothes” taught the classes and emphasized IBM values. Each morning, surrounded by posters

and emphasized IBM values. Each morning, surrounded by posters with corporate mot os and slogans, students would rise and sing IBM songs out of

the songbook Songs of the IBM, which included

“The Star-Spangled Banner” and, on the facing page, IBM’s own anthem, “Ever Onward.”48 IBMers sang such lyrics as:49

March on with I.B.M.

Work hand in hand,

Stout hearted men go forth,

In every land.

Although IBM eventual y evolved beyond singing corporate songs, it retained its intensely values-oriented training and socialization processes. Newly hired IBMers always learned the “three basic beliefs” (described in an earlier chapter) and experienced training classes that emphasized company philosophy as wel as skil s.

IBMers learned language unique to the culture (“IBM-speak”) and were expected at al times to display IBM professionalism. In 1979, IBM completed a twenty-six-acre “Management Development Center” that, in IBM’s own words, “might pass for a monastic retreat

—until you find yourself in its busy classrooms.”50

IBM’s pro le in the 1985 edition of The 100 Best Companies to Work For described IBM as a company that “has institutionalized its beliefs the way a church does. . . . The result is a company l ed with ardent believers. (If you’re not ardent, you may not be comfortable.). . . Some have compared joining IBM with joining a religious order or going into the military. . . . If you understand the Marines, you understand IBM. . . . You must be wil ing to give up some of your individual identity to survive.”51 A 1982 Wal Street Journal article noted that the IBM culture “is so pervasive that, as one nine-year [former] employee put it, ‘leaving the company was like emigrating.’”52

Indeed, throughout its history (at least to the time of this book), IBM imposed a severe tightness of t with its ideology. Former IBM

IBM imposed a severe tightness of t with its ideology. Former IBM

marketing vice president Buck Rodgers explained in his book The IBM Way:

IBM begins imbuing its employees with its . . . philosophy even before they're hired, at the very rst interview. To some, the word "imbuing" connotes brainwashing, but I don't think there's anything negative . . . in what is done. Basical y, anyone who wants to work for IBM is told: "Look this is how we do business.

. . . We have some very speci c ideas about what that means—

and if you work for us we'l teach you how to treat customers. If our at itude about customers and service is incompatible with yours, we'l part ways—and the quicker the bet er."53

Elitism also ran throughout the entire history of the company.

Beginning in 1914, long before the company had any national stature, Watson, Sr., sought to instil the perspective that the company was a superior and special place to work. "You cannot be a success in any business," he exhorted, "without believing that it is the greatest business in the world."54 (And recal from the BHAG

chapter how he tangibly but ressed this elitist at itude by changing the name of the company from the dreary-sounding Computer Tabulating Recording Company to The International Business Machines Corporation.) In 1989, three-quarters of a century after Watson, Sr., initiated the company's self-concept as something elite and special, Watson, Jr., came ful circle to the same theme in an essay for a seventy- fth anniversary publication entitled IBM: A Special Company:

If we believe that we're working for just another company, then we're going to be like another company. We have got to have a concept that IBM is special. Once you get that concept, it's very easy to give the amount of drive to work toward making it continue to be true.55

You might be wondering whether IBM’s cult-like atmosphere and tight adherence to its three basic beliefs contributed to IBM’s di culties in the early 1990s. Was cultism a primary cause of IBM’s di culty to adapt to the dramatic changes in the computer industry? Upon close inspection, the evidence does not support this view. IBM was strongly cult-like in the 1920s, yet was able to adapt to the dramatic shift to automated accounting procedures. IBM was incredibly cult-like in the 1930s, yet was able to adapt to the demands of the Depression without a single layo . IBM maintained its cult-like culture in the 1950s and 1960s, yet was able to adapt to the rise of computers, perhaps the most dramatic shift in IBM’s history. IBM stil had a cultish feel in the early 1980s, yet—unlike any other old-line computer company—adapted to the personal computer revolution and established itself as a major player. If anything, IBM’s cult-like culture—its fanatical preservation of its core values—declined as the company headed toward trouble.

IBM at ained its greatest success—and displayed its greatest ability to adapt to a changing world—during the same era that it displayed its strongest cult-like culture.

Furthermore, Burroughs (IBM’s comparison) displayed lit le of the cultism we saw in the history of IBM. It had no Burroughs indoctrination center to “imbue” employees with corporate values.

We found no indication that Burroughs sought to impose severe tightness of t around a central ideology, nor did we see any evidence that Burroughs saw itself as elite and special in the scheme of American enterprise. IBM gave itself a clear self-identity, however cult-like. Burroughs did not. And IBM consistently pul ed ahead of Burroughs at critical junctures in the evolution of the industry, even though Burroughs had a bet er early start in life.

THE MAGIC OF WALT DISNEY

Like IBM and Nordstrom, the Walt Disney Company has made extensive use of indoctrination, tightness of t, and elitism as key parts of preserving its core ideology.

Disney requires every single employee—no mat er what level or position—to at end new employee orientation (also known as

“Disney Traditions”) taught by the faculty of Disney University, the company’s own internal socialization and training organization.56

Disney designed the course so that “new members of the Disney team can be introduced to our traditions, philosophies, organization, and the way we do business.”57

Disney pays particular at ention to thoroughly screen and socialize hourly workers into its theme parks. Potential recruits—even those being hired to sweep the oor—must pass at least two screenings by di erent interviewers.58 (In the 1960s, Disney required al applicants to take an extensive personality test.)59 Men with facial hair and women with dangling earrings or heavy makeup need not apply; Disney enforces a strict grooming code.60 (In 1991, members of the Disneyland sta went on strike to protest the grooming code; Disney red the strike leader and kept the rule intact.)61 Even as far back as the 1960s, Disneyland imposed strict tightness-of- t guidelines in hiring, as Richard Schickel described park employees in his 1967 book The Disney Version:

[They] present a rather standardized appearance. The girls are general y blonde, blue-eyed and self-e acing, al looking as if they stepped out of an ad for California sportswear and are heading for suburban motherhood. The boys . . . are outdoorsy, Al -American types, the kind of vacuously pleasant lad your mother was always tel ing you to imitate.62

Al new hires at Disneyland experience a multiday training program where they quickly learn a new language:

Employees are “cast members.”

Customers are “guests.”

A crowd is an “audience.”

A work shift is a “performance.”

A job is a “part.”

A job description is a “script.”

A uniform is a “costume.”

The personnel department is “casting.”

Being on duty is “onstage.”

Being of duty is “backstage.”

The special language reinforces the frame of mind Disney imposes via careful y scripted orientation seminars delivered by wel -

practiced “trainers” who dril new cast members with questions about Disney characters, history, and mythology, and who constantly reinforce the underlying ideology: TRAINER: What business are we in? Everybody knows McDonald’s makes hamburgers. What does Disney make?

NEW HIRE: It makes people happy.

TRAINER: Yes, exactly! It makes people happy. It doesn’t mat er who they are, what language they speak, what they do, where they come from, what color they are, or anything else. We’re here to make ’em happy. . . .

Nobody’s been hired for a job. Everybody’s been cast for a role in our show.63

The orientation seminars take place in special y designed training rooms, plastered with pictures of founder Walt Disney and his most

rooms, plastered with pictures of founder Walt Disney and his most famous characters (such as Mickey Mouse, Snow White and the Seven Dwarfs). They aim, in the words of a Tom Peters Group video, “to create the il usion that Walt himself is present in the room, welcoming the new hires to his personal domain. The object is to make these new employees feel like partners with the Park’s founder.”64 Employees read from the University Textbooks, which have included such exhortations as: “At Disneyland we

get tired, but never bored, and even if it's a rough day, we appear happy. You've got to have an honest smile. It's got to come from within. . . . If nothing else helps, remember that you get paid for smiling."65

After in-class orientation, each new cast member doubles up with an experienced peer who further socializes him or her into the nuances of the speci c job. Throughout, Disney enforces strict codes of behavior and conduct, demanding that the cast member quickly sand o any personality quirks that do not t their speci c script.66

Training magazine observed: "At Disney there is no such thing as an unplanned moment for new hires. The rst days fol owing the Disney orientation program are l ed with costume (uniform) t ings, script rehearsals (training) and meeting fel ow cast members. And it is al as careful y orchestrated and thought-out as any performance staged for theme park guests."67

Disney's fanatical preservation of its self-image and ideology has shown itself most clearly in the theme parks, but it also extends far beyond the theme parks. Al employees in the company must at end a Disney Traditions orientation seminar. A Stanford MBA who spent a summer at Disney doing nancial analysis, strategic planning, and other similar work, described:

I recognized the magic of Walt's vision on my rst day at the Walt Disney Company. . . . At Disney University, through videos and "pixie dust," Walt shared his dreams and the magic of Disney's "world." Disney archives treasure Walt's history for cast members to enjoy. After orientation, I stopped at the corner of Mickey Avenue and Dopey Drive—I felt the magic, the

Mickey Avenue and Dopey Drive—I felt the magic, the sentimentality, the history. I believed in Walt's dream and shared this belief with others in the organization.68

No employee anywhere in the company could cynical y or agrantly denounce the ideal of "wholesomeness" and survive.69

Company publications constantly emphasize that Disney is

“special,” “di erent,” “unique,” “magical.” Even the company’s annual reports to shareholders have been peppered with such terms and phrases as “dreams,” “fun,” “excitement,” “joy,” “imagination,”

and “magic is the essence of Disney.”70

Disney shrouds much of its inner workings in secrecy, which further contributes to a sense of mystery and elitism—only those deep on the “inside” get to peek behind the curtain to see the mechanics of the “magic.” No one except speci c cast members (who are sworn to secrecy), for example, can observe the training of characters at Disneyland. Writers who cover Disney have encountered ercely protective gatekeepers to the secrets of the Magic Kingdom. “Disney is a strangely closed corporation,” wrote one author. “It [has] a level of control ing paranoia I had never encountered in my years of writing about American business.”71

Disney’s intensive screening and indoctrination of employees, its obsession with secrecy and control, and its careful cultivation of a mythology and image as something special—and important—to the lives of children around the world, al help to create a cultish fol owing that extends even to its customers. A loyal Disney customer once noticed a slightly discolored Disney character dol at a retail store and seethed, “If Uncle Walt saw that, he’d be ashamed.”72

Indeed, when examining Disney, it can be hard to keep in mind that it is a corporation, not a social or religious movement. Joe Fowler wrote in his book Prince of the Magic Kingdom: This is not a corporate history. It is a history of a deeply human struggle over ideas, values, and hopes for which men and

struggle over ideas, values, and hopes for which men and women were wil ing to give themselves over, values at times so evanescent that some people could dismiss them as sil y, values so deep that others became students of them, dedicated their careers to making them come alive, became enraged and embit ered when they seemed to be violated, and turned poetic and inspired in their defense. This is what is impressive about the name “Disney”: no one is neutral. . . . Walt Disney was a genius or a charlatan, a

hypocrite or an exemplar, a snake-oil salesman or a beloved father figure to generations of children.73

The company's cult-like culture does, in fact, trace to founder Walt Disney, who saw the relationship between himself and employees as like that between father and children.74 He expected complete dedication from Disney employees, and he demanded unblemished loyalty to the company and its values. A dedicated and

—above al —loyal Disneyite could make honest mistakes and be given a second (and often, third, fourth, and fth) chance.75 But to breach the sacred ideology or to display disloyalty. . . wel , these w e r e sins, punishable by immediate and unceremonious termination. According to Marc Eliot's biography Walt Disney,

"When someone did, on occasion, slip in Walt's presence and use a four-let er word in mixed company, the result was always immediate dismissal, no mat er what type of professional inconvenience the firing caused."76 When Disney animators went on strike in 1941, Walt felt betrayed by his workers and saw the union not so much as an economic force but as an intrusion into his careful y control ed "family" of loyal Disneyites.77

Walt had a rage for order and control that he translated into tangible practices to maintain the essence of Disney. The personal grooming code, the recruiting and training processes, the fanatical at ention to the tiniest details of physical layout, the concern with secrecy, the exacting rules about preserving the integrity and sanctity of each Disney character—these al trace their roots to Walt's quest to keep the Disney Company completely within the

Walt's quest to keep the Disney Company completely within the bounds of its core ideology. Walt described the roots of the Disneyland processes:

The rst year I leased out the parking concession, brought in the usual security guards—things like that. But I soon realized my mistake. I couldn't have outside help and stil get over my idea of hospitality. So now we recruit and train every one of our employees. I tel the security o cers, for instance,

that they are never to consider themselves cops. They are there to help people. . . . Once you get the policy going, it grows.78

And grow it did. Even though the company languished after Walt's death, it never lost its core ideology, due in large part to the tangible processes laid in place before he died. And when Michael Eisner and the New Disney Team took over in 1984, the core—

careful y preserved—formed the bedrock of Disney's resurgence in the fol owing decade.

Columbia Pictures, in contrast, had neither a core ideology nor any core preservation mechanisms in place after Cohn's death in 1958. Walt didn't build a perfectly ticking clock, but he did have a core ideology, and he did clock-build mechanisms (however cultish) to preserve the core ideology. Colin did not. Disney eventual y rebounded after Walt's death as an independent institution built on his legacy; Columbia Pictures ceased to exist as an independent company.

COMPLETE IMMERSION AT PROCTER & GAMBLE

Throughout most of its history, Procter & Gamble has preserved its core ideology through extensive use of indoctrination, tightness of t, and elitism. P&G has long-standing practices of careful y screening potential new hires, hiring young people for entry-level jobs, rigorously molding them into P&G ways of thought and behavior, spit ing out the mis ts, and making middle and top slots available only to loyal P&Gers who grew up inside the company.

available only to loyal P&Gers who grew up inside the company.

The 100 Best Companies to Work for in America states: Competition to get into P&G is tough. . . . Recruits, when they sign on, may feel they have joined an institution, rather than a company. . . . No one ever comes into P&G at a middle or top-management level who has garnered his or her experience at another company. It just doesn't happen. This is an up-through-the-ranks company with a vengeance.79. . . There is a P&G way of doing things, and if you don't master it or at least feel comfortable with it, you're not going to be happy here, not to speak of being successful.80

Indoctrination processes are both formal and informal. P&G

inducts new employees into the company with training and orientation sessions and expects them to read its o cial biography Eyes on Tomorrow (also known to insiders as “The Book”), which describes the company as “an integral part of the nation’s history”

with “a spiritual inheritance” and “unchanging character . . . that

[has] remained solidly based on the principle, the ethics, the morals so often pronounced by the founders [and] has become a lasting heritage.”81 Internal company publications, talks by executives, and formal orientation materials stress P&G’s history, values, and traditions.82 Employees cannot miss seeing the

“Ivorydale Memorial” overlooking the Ivorydale plant—a life-size marble sculpture of Wil iam Cooper Procter, grandson of cofounder Wil iam Procter, striding forward from the inscribed words: “He lived a life of noble simplicity, believing in God and the inherent worthiness of his fel ow men.”83

New hires—especial y those in brand management (the central function of the company)—immediately nd nearly al of their time occupied by working or socializing with other members of “the family,” from whom they further learn about the values and practices of P&G. The company’s relatively isolated location in a P&G-dominated city (Cincinnati) further reinforces the sense of

P&G-dominated city (Cincinnati) further reinforces the sense of complete immersion into the company. “You go to a strange town, work together al day, write memos al night, and see each other on weekends,” described one P&G alum.84 P&Gers are expected to socialize primarily with other P&Gers, belong to the same clubs, at end similar churches, and live in the same neighborhoods.85

P&G has a long historical track record of paternalistic and progressive employee pay and bene t programs, which bind its people closely to the company.86

• In 1887, P&G introduced a pro t-sharing plan for workers, making it the oldest pro t-sharing plan in continuous operation in American industry.

• In 1892, P&G introduced an employee stock ownership plan, one of the first in industrial history.

• In 1915, P&G introduced a comprehensive sickness-disability-retirement-life-insurance plan—again, one of the rst companies to do so.

The company has used these programs not only as a means of rewarding employees, but also as mechanisms to in uence behavior, gain commitment, and ensure tightness of t. A P&G

publication described how it used the early profit-sharing plan:

[Wil iam Cooper Procter] concluded that workers who showed indi erence to the need for greater work e ort should be deprived of their share of pro ts—that their shares should be turned over to those who cared. So he set up four classi cations

—based on the degree of a worker's cooperation as decided by management. That helped considerably [to ensure the proper at itude]!87

By encouraging employees to purchase shares in the employee

By encouraging employees to purchase shares in the employee stock ownership program, the company garnered a high level of psychological commitment. After al , what bet er way to gain "buy in" to the organization than to have employees literal y buy in with some of their own hard-earned income? In 1903, to further reinforce this buy-in process, P&G restricted its pro t-sharing program only to those wil ing to make a signi cant stock purchase commitment:

Pro t sharing would [henceforth] be tied directly to employee ownership of P&G common stock. To be eligible for pro t sharing, an employee had to buy stock equivalent at current value to his annual wage [emphasis ours], but could spread payment over several years with a minimum payment of four percent of his annual wage. At the same time, the Company contributed 12 percent of the employee's annual wage toward purchase of that stock.88

By 1915, ful y 61 percent of employees had bought in to the stock program —and thereby bought ful psychological membership in P&G. Throughout its history, P&G has used a myriad of tangible mechanisms to enforce desired behavior, ranging from strong dress codes and o ce layouts that al ow lit le privacy to P&G's famous

"one-page memo"* that mandates consistency in communication style.

P&G's tightness of t applies across the company, at al locations, in al countries, and in al world cultures. An ex-employee who joined P&G directly out of business school to work in Europe and Asia commented: "Procter's culture extends to al corners of the globe. When going overseas, it was made very clear to me that I must rst and foremost adapt to the P&G culture, and secondarily adapt to the national culture. Belonging to P&G is like belonging to a nation unto itself."89 At a company meeting in 1986, chief executive John Smale echoed a similar theme:

Procter & Gamble people al over the world share a common bond. In spite of cultural and individual di erences, we speak the same language. When I meet with Procter & Gamble people

—whether they are in Sales in Boston, Product Development at the Ivorydale Technical Center, or the Management Commit ee in Rome—I feel I am talking to the same kind of people. People I know. People I trust. Procter & Gamble people.90

Like Nordstrom, IBM, and Disney, Procter & Gamble has displayed an intense penchant for secrecy and control of information.

Managers routinely admonish, scold, or penalize employees for working on airplanes, using luggage ID cards that reveal them as P&G employees, and for talking about business in public places.

The 1991 management stock option plan stipulates that if the recipient of the options discloses unauthorized information about P&G to the outside world, the options wil be revoked.91

The company's secretive nature reinforces an elitism cultivated throughout much of its history. P&G people feel proud to be part of an organization that

describes itself as “special,” “great,” “excel ent,”

“moral,” “self-disciplined,” ful of “the best people,” “an institution,” and “unique among the world’s business organizations.”92 In describing a particularly di cult project, a P&G

manager commented: “If there was one characteristic I saw demonstrated by everyone [throughout the project] it was the pride in being the best.”93

The contrast between P&G and Colgate is not as stark as between Nordstrom and Melvil e, IBM and Burroughs, or Disney and Columbia. For one thing, up until the early 1900s, Colgate placed great emphasis on a paternalistic culture built around the Colgate family values.94 Nonetheless, there is a di erence, particularly over the past sixty years. We found no evidence that Colgate imposes the same rigorous screening or tightness-of- t criteria upon new hires.

Nor did we nd any evidence of the same level of indoctrination into the “character” of P&G and the guiding principles laid down by

into the “character” of P&G and the guiding principles laid down by its founders. Whereas P&G has always de ned itself in terms of its own core ideology and deep heritage—constantly emphasizing its specialness and uniqueness—Colgate has increasingly de ned itself in relation to P&G. Procter has continual y reinforced a sense of being the elite of the elite; Colgate has come to see itself as “second to Procter” and on a quest to become “another P&G.”95

THE MESSAGE FOR CEOS, MANAGERS, AND ENTREPRENEURS

You might nd yourself somewhat uncomfortable with the ndings in this chapter. We share some of that discomfort, and we wish to be clear that we’re certainly not advocating (or even describing) the extreme Jim Jones, David Koresh, or Reverend Sun Myung Moon type of situation. It is important to understand that, unlike many religious sects or social movements which often revolve around a charismatic cult leader (a “cult of personality”), visionary companies tend to be cult-like around their ideologies. Notice, for example, how Nordstrom created a zealous and

fanatical reverence for its core values, shaping a powerful mythology about the customer service heroics of its employees, rather than demanding slavish reverence for an individual leader. Disney's zealous protection of its values transcended Walt and remained largely intact decades after his death. P&G remained tightly dedicated to its principles for over 150 years, through nine generations of top management. Cultism around an individual personality is time tel ing; creating an environment that reinforces dedication to an enduring core ideology is clock building.

THE point of this chapter is not that you should set out to create a cult of personality. That's the last thing you should do.

Rather, the point is to build an organization that fervently preserves its core ideology in speci c, concrete ways. The visionary companies translate their ideologies into tangible mechanisms aligned to send a consistent set of reinforcing signals. They indoctrinate people, impose tightness of t, and create a sense of belonging to something special through such practical, concrete items as:

• Orientation and ongoing training programs that have ideological as wel as practical content, teaching such things as values, norms, history, and tradition

• Internal "universities" and training centers

• On-the-job socialization by peers and immediate supervisors.

• Rigorous up-through-the-ranks policies—hiring young, promoting from within, and shaping the employee's mind-set from a young age

• Exposure to a pervasive mythology of "heroic deeds" and corporate exemplars (for example, customer heroics let ers, marble statues)

• Unique language and terminology (such as "cast members,"

"Motorolans") that reinforce a frame of reference and the sense of belonging to a special, elite group

• Corporate songs, cheers, a rmations, or pledges that reinforce psychological commitment

• Tight screening processes, either during hiring or within the first few years

• Incentive and advancement criteria explicitly linked to t with the corporate ideology

• Awards, contests, and public recognition that reward those who display great ef ort consistent with the ideology. Tangible and visible penalties for those who break ideological boundaries

• Tolerance for honest mistakes that do not breach the

• Tolerance for honest mistakes that do not breach the company's ideology ("non-sins"); severe penalties or termination for breaching the ideology ("sins")

• "Buy-in" mechanisms (financial, time investment)

• Celebrations that reinforce successes, belonging, and specialness

• Plant and of ice layout that reinforces norms and ideals

• Constant verbal and writ en emphasis on corporate values, heritage, and the sense of being part of something special Preserve the Core AND Stimulate Progress

At this point, you might thinking: But isn't a tight, cult-like culture dangerous? Does it lead to group-think and stagnation? Does it drive away talented people? Does it sti e creativity and diversity?

Does it inhibit change? Our answer: Yes, a cult-like culture can be dangerous and limiting if not complemented with the other side of the yin-yang. Cult-like cultures, which preserve the core, must be counterweighted with a huge dose of stimulating progress. In a visionary company, they go hand in hand, each side reinforcing the other.

A cult-like culture can actual y enhance a company's ability to pursue Big Hairy Audacious Goals, precisely because it creates that sense of being part of an elite organization that can accomplish just about anything. IBM's cultish sense of itself contributed greatly to its ability to gamble on the IBM 360. Disney's cult-like belief in its special role in the world enhanced its ability to launch such radical BHAGs as Disneyland and EPCOT center. Without Boeing's dedication to being an organization of people who "live, breathe, eat and sleep what they are doing," it could not have successful y launched the 707 and 747 projects. Without Sony's almost fanatical belief that it was a unique organization with a special role to play in the world, it could not have taken its bold steps with transistors in the 1950s. Merck's cult-like dedication to its ideology gave its people a sense that they were part of something more than just

people a sense that they were part of something more than just another corporation—and it is largely out of this sense that they were inspired to put forth the e ort required to establish Merck as the preeminent pharmaceutical company in the world.

Furthermore, it's important to understand that you can have a cult-like culture of innovation, or a cult-like culture of competition, or a cult-like culture of change. You can even have a cult-like culture of zaniness. We think that's exactly what executives at Wal-Mart do through such actions as leading thousands of screaming associates in the Wal-Mart cheer: "Give Me a W! Give Me an A! Give Me an L! Give Me a Squiggly! (Employees twist and squiggle their hips.) Give me an M! Give Me an A! Give Me an R! Give Me a T!

What's that spel ? Wal-Mart! What's that spel ? Wal-Mart! Who's number one? THE CUSTOMER!"96

Cult-like tightness and diversity can also work hand in hand.

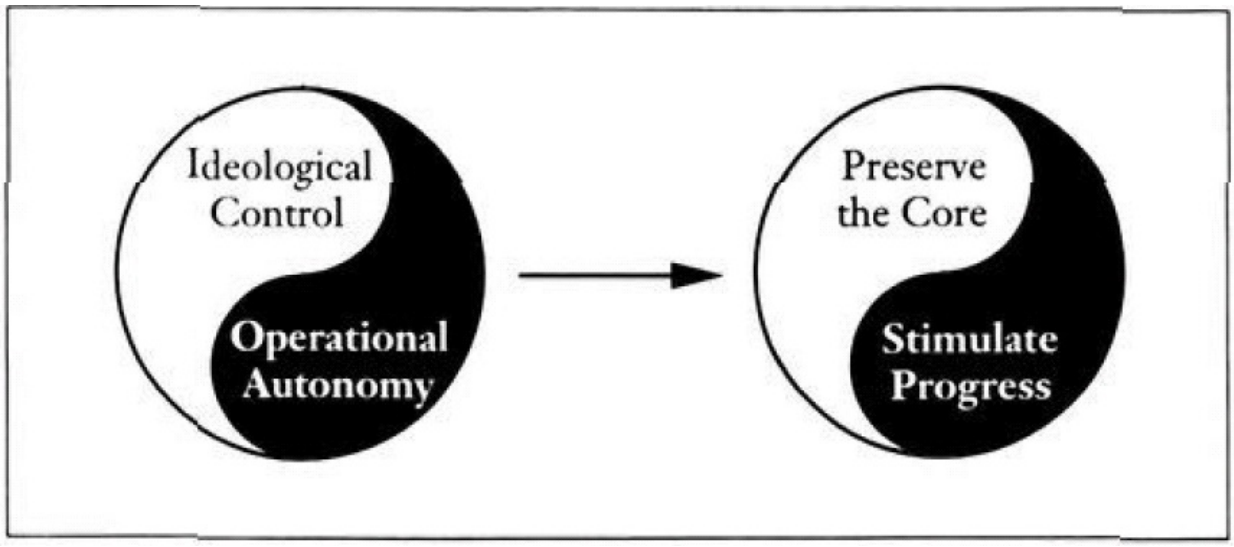
Some of the most cult-like visionary companies have received accolades as being the best major corporations for women and minorities. Merck, for example, has a long track record of progressive equal opportunity programs. At Merck, diversity is a form of progress that nicely complements its deeply cherished core.

You can be any color, size, shape, or gender at Merck—just as long as you believe in what the company stands for.

IDEOLOGICAL CONTROL/OPERATIONAL AUTONOMY

In a classic example of the “Genius of the AND” prevailing over the

“Tyranny of the OR,” visionary companies impose tight ideological control and simultaneously provide wide operating autonomy that encourages individual initiative. In fact, as we wil discuss in the next chapter, we found that the visionary companies were signi cantly more decentralized and granted greater operational autonomy than the comparison companies as a general pat ern, even though they have been much more cult-like.97 Ideological control preserves the core while operational autonomy stimulates progress.



Recal the Nordstrom one-page employee handbook described at the beginning of this chapter. Notice how, on the one hand, the company constricts behavior to that consistent with the Nordstrom ideology. Yet, on the other hand, it grants immense operating discretion. When asked during a visit to a Stanford Business School class how a Nordstrom clerk would handle a customer at empting to return a dress that had obviously been worn, Jim Nordstrom replied:

I don’t know. That’s an honest answer. But I do have a high level of con dence that it would be handled in such a way that the customer would feel wel treated and served. Whether that would involve taking the dress back would depend on the speci c situation, and we want to give each clerk a lot of latitude in guring out what to do. We view our people as sales professionals. They don’t need rules. They need basic guideposts, but not rules. You can do anything you need to at Nordstrom to get the job done, just so long as you live up to our basic values and standards.98

Nordstrom reminds us of the United States Marine Corps—tight, control ed, and disciplined, with lit le room for those who wil not

control ed, and disciplined, with lit le room for those who wil not or cannot conform to the ideology. Yet, paradoxical y, those without individual initiative and entrepreneurial instincts wil just us likely fail at Nordstrom as those who do not share the ideological tenets. The same holds at other ideological y tight visionary companies like 3M, J&J, Merck, HP, and Wal-Mart.

This nding has massive practical implications. It means that companies seeking an “empowered” or decentralized work environment should rst and foremost impose a tight ideology, screen and indoctrinate people into that ideology, eject the viruses, and give those who remain the tremendous sense of responsibility that comes with membership in an elite organization. It means get ing the right actors on the stage, put ing them in the right frame of mind, and then giving them the freedom to ad lib as they see t.

It means, in short, understanding that cult-like tightness around an ideology actual y enables a company to turn people loose to experiment, change, adapt, and—above al —to act.

* “Robert”—a typical Nordstrom new hire—is a composite character, but the experience described is authentic. We created a description of Robert’s experience based on interviews with employees and ex-employees, transcript

notes from an interview with co-chairman Jim Nordstrom, company documents, book excerpts, and articles.

* We found that the visionary companies put more emphasis on employee training in general. Not just ideological orientation, but also skil s and professional development training. We wil return to this point in a later chapter.

* NOTE: for an excel ent account of IBM’s early history, see Robert Sobel, IBM: Colossus in Transition (New York: Truman Tal ey Books, 1981).

* Al memos are supposed to be kept to one page, plus exhibits. Most P&Gers conform to this rule, although some P&Gers have in fact seen memos longer than one page.

Chapter 7

Chapter 7

Try a Lot of Stuff and Keep What Works

To my imagination it is far more satisfactory to look at [wel -

adapted species] not as special y endowed or created instincts, but as smal consequences of one general law leading to the advancement of al organic beings—namely, multiply, vary, let the strongest live and the weakest die.

CHARLES DARWIN, ORIGIN OF SPECIES, 18591

Our company has, indeed, stumbled onto some of its new products.

But never forget that you can only stumble if you're moving.

RICHARD P. CARLTON, FORMER CEO, 3M CORPORATION, 19502

Failure is our most important product.

R. W. JOHNSON, JR., FORMER CEO, JOHNSON & JOHNSON, 19543

In examining the history of the visionary companies, we were struck by how often they made some of their best moves not by detailed strategic planning, but rather by experimentation, trial and error, opportunism, and—quite literal y—accident. What looks in hindsight like a bril iant strategy was often the residual result of opportunistic experimentation and "purposeful accidents." Consider the fol owing examples at Johnson & Johnson, Marriot , and American Express.

Johnson & Johnson's Accidental Move into

Consumer Products

In 1890, Johnson & Johnson—then primarily a supplier of antiseptic gauze and medical plasters—received a let er from a physician who complained about patient skin irritation from certain medicated plasters. Fred Kilmer,

the company’s director of research, quickly responded by sending a packet of soothing Italian talc to apply on the skin. He then convinced the company to include a smal can of talc as part of the standard package with certain products. To the company’s surprise, customers soon began asking to buy more of the talc directly. J&J responded by creating a separate product cal ed “Johnson’s Toilet and Baby Powder,” which became a famous household staple around much of the world.

According to J&J’s own o cial history, “the Johnsons got into the baby powder business quite by accident.”4 Even more signi cant, the company thereby took a tiny incremental step that eventual y mushroomed into a signi cant strategic shift into consumer products—an “accident” which eventual y grew to become 44

percent of J&J’s revenues—and as important to its growth as medical supplies and pharmaceutical products.5

Later, J&J stumbled upon another famous product by accident. In 1920, company employee Earle Dickson created a ready-to-use bandage—made of surgical tape with smal pieces of gauze and a

bandage—made of surgical tape with smal pieces of gauze and a special covering so it would not stick to the skin—for his wife who had a knack for cut ing herself with kitchen knives. When he mentioned his invention to the marketing people, they decided to experiment with the product on the market. Eventual y, after a slow start and a never-ending process of tinkering, Band-Aid products became the biggest sel ing category in the company’s history and further solidi ed J&J’s “accidental” strategic move into consumer products.6

Marriott’s Opportunistic Step into Airport Services In 1937—ten years after opening his rst root beer stand—J.

Wil ard Marriot had built a chain of nine pro table restaurants sta ed by two hundred zealous employees trained in the company’s meticulous methods of customer service. Marriot clearly had a system that worked. With plans to double the number of restaurants over the next three years, the future prospects of the emerging company never looked brighter. J. Wil ard and

his management team would certainly at ain great success—and, just as certain, have their hands ful —if they simply focused on executing the restaurant expansion plan.

But what to do about the odd emerging situation at Marriot shop number eight? Located near Hoover Airport in Washington, D.C., number eight had at racted an entirely di erent clientele than other Marriot shops: Passengers on their way to catch a ight began purchasing meals and snacks which they stu ed in pockets, paper bags, and carry-on luggage. “Wel how about that,” said Marriot during an inspection visit to number eight. “Coming in here and buying things to eat on the plane?”7

“Every day,” his store manager explained, “we get a few more of them.”

Marriot pondered the situation overnight, according to Robert O’Brian in the book Marriot . The very next day, he paid a visit to Eastern Air Transport and created a new business arrangement

Eastern Air Transport and created a new business arrangement whereby shop number eight would deliver prepackaged box lunches directly onto the tarmac in a bright orange truck with Marriot ’s logo and let ering on the side. Within a few months, the service expanded to American Airlines and catered twenty-two ights per day. Marriot soon put a ful -time manager in charge of the emerging business, with the mission to ful y develop it at Hoover and expand it to other airports. Airport services evolved from the seed of that unexpected opportunity to become a major business for Marriot Corporation, eventual y reaching more than a hundred separate airports.8

Marriot could have bogged down in long meetings and strategic analyses to decide what to do. The unusual clientele at number eight presented Marriot with an odd variation to its traditional customer base. The company could have ignored it, but chose instead to experiment—to actual y test and see if this “odd variation” might prove to be a favorable variation. Marriot made an incremental shift in corporate strategy by quick, vigorous action taken to seize upon a stroke of unexpected good luck. The step looks bril iant in retrospect, but in reality was simply the result of an opportunistic experiment that happened to work out.

American Express’s Unintended Evolution into

Financial and Travel Services

American Express began life in 1850 as a regional freight express business (essential y the nineteenth-century equivalent of the United Parcel Service). In 1882, the company took a smal , incremental step that turned out to be the genesis of a dramatic strategic shift.

Due to the increasingly popular postal money order, American Express faced declining demand for its cash-shipping services (similar to an armored car service). In response, AmEx created its own money order. The “Express Money Order” became an unexpected success—11,959 of them sold during the rst six weeks.

AmEx aggressively seized the opportunity and began sel ing the

AmEx aggressively seized the opportunity and began sel ing the product not only at its own o ces, but also at railroad stations and general stores, and thereby began—unwit ingly—to transform itself into a financial services company.9

A decade later, in 1892, American Express president J. C. Fargo took a European vacation, where he found it di cult to translate his let ers of credit into cash—a problem (and therefore an opportunity) which impel ed a further shift in the company’s trajectory. In his book American Express 1850–1950, Alden Hatch wrote:

On his return, [Fargo] stalked through the corridors of 65

Broadway with more than his usual preoccupation. . . . He walked right past his own of ice to that of [employee Marcel us]

Berry. “Berry,” he said, omit ing a salutation and going straight to the point, “I had a lot of trouble cashing my let ers of credit.

The moment I got o the beaten track they were no more use than so much wet wrapping paper. If the president of American Express has that sort of

trouble, just think what ordinary travelers face. Something has got to be done about it."10

Berry did indeed do something about it. He created an elegant solution which required simply a signature upon purchase and a countersignature upon redemption, which eventual y became known around the world as the ubiquitous "American Express Travelers Cheque." The mechanics of the traveler's check gave American Express an unexpected bonus: Due to lost checks and delays, the company sold more orders than it redeemed each month, which created a cash cushion. According to Jon Friedman and John Meehan in House of Cards:

Unintentional y, AmEx had invented the 'float.' . . . A mere $750

at the beginning, the oat would eventual y top $4 bil ion by 1990, generating $200 mil ion in revenue. The company had virtual y [and accidental y] created a new international

virtual y [and accidental y] created a new international currency.11

In what started as just another incremental, opportunistic step, the traveler's check further evolved American Express toward nancial services. AmEx didn't plan to become a nancial services company.

Nonetheless, it became one.

The traveler's check also contributed to the company's completely unintentional evolution into a travel services company. In fact, president J. C. Fargo issued a clear, unambiguous dictum that American Express was not going into the travel/tourism business:

"We want it distinctly kept in mind at al times and in al places and by al the company's forces, that this company is not and does not intend going into the touring [travel services] business

[emphasis ours]."12

In spite of Fargo's dictum, that's exactly what AmEx did. The company had developed a pat ern of solving customer problems and quickly exploiting opportunities—an impulse guided by its core ideology of heroic customer service—that could not be easily suppressed, even by the CEO. Soon after the company opened its rst European traveler's check o ce in Paris in 1895, an entrepreneurial employee named Wil iam Dal iba began expanding the company's activities in response to the needs of American travelers that always crammed the Paris o ce clamoring for check cashing, mail services, travel schedules, tickets, advice, and so on.

Dal iba had to be careful and low-pro le, of course, so as not to raise the ire of J. C. Fargo. So he moved incremental y, experimenting with ticket windows to sel berths on steamships.

Using his successful experiment as a foot in the door, Dal iba convinced the company to open a "Travel Department" and began sel ing train tickets, packaged tours, and a range of travel services.13

By 1912, AmEx had " rmly established itself as a great travel organization, though even yet it did not admit the fact [emphasis ours]."14 By the early 1920s, Dal iba's experiments had turned travel-related services into the second most important strategic

travel-related services into the second most important strategic pil ar of the company, behind financial services.

Thus, through a series of incremental steps—most of them opportunistic and certainly not part of any grand plan—American Express had evolved into something entirely di erent from its original founding concept as a freight express business.

CORPORATIONS AS EVOLVING SPECIES

What should we make of these examples from J&J, Marriot , and American Express? We might be tempted to just ignore them as weird aberrations, but they weren't the only such examples we found. Bil Hewlet told us that HP "never planned more than two or three years out" during the pivotal 1960s.15 Nor did the company have any grand plan in mind when making

its watershed strategic move into the computer business. Quite the opposite. In 1965, HP designed its rst smal computer simply to add power to its line of instruments products.16 Explained former chief executive John Young:

It was basical y an under the bench thing. We didn't even cal it a computer. We cal ed it an "instrument control er." Although we knew computers would be important in the future, we wanted to maintain our reputation as an instrument company and did not want to be known as a computer company.17

Similarly, Motorola initial y entered the eld of advanced electronics (transistors, semiconductors, integrated circuits) simply as a natural outgrowth of its smal Phoenix laboratory set up in 1949 to develop a few electronic components for use in the company's televisions and radios.18 Only later, in 1955, did Motorola make a conscious strategic choice to move into the electronics business—and that simply because the company could not a ord to build an advanced plant unless it sold some of the output to outside customers.

output to outside customers.

We could go on with examples from Citicorp, Philip Morris, GE, Sony, and others. Don't get us wrong. We're not saying that these companies never had plans. But we were surprised to nd so many examples of key moves by the visionary companies that came about by some process other than planning. Nor do these examples merely represent random luck. No, we found something else at work.

These provocative examples led us to a second type of progress (the rst was BHAGs) stimulated by the visionary companies to a greater degree than the comparison companies: evolutionary progress. The word "evolutionary" describes this type of progress because it closely resembles how organic species evolve and adapt to their natural environments. Evolutionary progress di ers from BHAG progress in two key ways. First, whereas BHAG progress involves clear and unambiguous goals ("We're going to climb that mountain"), evolutionary progress involves ambiguity ("By trying lots of di erent approaches, we're bound to stumble onto something that works; we just don't know ahead of time what it wil be"). Second,

whereas BHAG progress involves bold discontinuous leaps, evolutionary progress usual y begins with small incremental steps or mutations, often in the form of quickly seizing unexpected opportunities that eventual y grow into major—

and often unanticipated—strategic shifts.

Why lead into the topic of evolutionary progress with examples of unplanned strategies? Because evolutionary progress is unplanned progress. Indeed, if we looked at species in the natural world through the lens of strategic planning, we might easily conclude that they were the result of wel -executed plans: They're so wel adapted, they must have been created exactly that way as part of a bril iant overal strategic plan. How else could we explain them?

But, from the perspective of modern biology, such a conclusion would be dead wrong. After the Darwinian revolution, biologists came to understand that species were not directly created in a speci c preplanned form; they evolved. Not only that, they evolved by a process with remarkable similarity to how some of our

by a process with remarkable similarity to how some of our visionary companies became wel adapted to their environments.

Darwin's Theory of Evolution Applied to Visionary Companies

The central concept of evolutionary theory—and Charles Darwin's great insight—is that species evolve by a process of undirected variation ("random genetic mutation") and natural selection.

Through genetic variation, a species at ains "good chances" that some of its members wil be wel suited to the demands of the environment. As the environment shifts, the genetic variations that best t the environment tend to get "selected" (that is, the wel -

suited variations tend to survive and the poorly suited tend to perish—that's what Darwin meant by "survival of the t est"). The selected (surviving) variations then have greater representation in the gene pool and the species

wil evolve in that direction. In Darwin's own words: "Multiply, vary, let the strongest live, and the weakest die."*

Now consider a company—say, American Express—as analogous to a species. By the early twentieth century, American Express found its traditional freight business under siege. Government regulators eroded the company's monopolistic rate structure and in 1913 the U.S. Post O ce began a competing parcel-post system.

Pro ts fel 50 percent.19 Then in 1918 the U.S. government nationalized al freight express businesses, creating a cataclysmic industry change.20 Most freight companies disappeared as the government snatched away their core business. But for American Express, its experiments in nancial and travel services (described earlier) proved to be favorable—albeit unplanned—variations that were bet er suited to the changed environment than its traditional freight business. These variations were then selected as the path to evolve beyond its traditional—and now obsolete—line of business and on which to base its future prosperity.21

WE like to describe the evolutionary process as "branching and pruning." The idea is simple: If you add enough branches to a tree (variation) and intel igently prune the deadwood (selection), then you'l likely evolve into a col ection of healthy branches wel positioned to prosper in an ever-changing environment.

To this day, Johnson & Johnson consciously encourages branching and pruning. It tries lots of new things, keeps those that work, and quickly discards those that don't. It stimulates variation by fostering a highly decentralized environment that encourages individual initiative and al ows people to experiment with new ideas. At the same time, J&J imposes rigorous selection criteria. Only those experiments that prove to be pro table and that t with J&J's core ideology get to remain in the company's portfolio of businesses.

With his oft-repeated statement "Failure is our most important product," R. W. Johnson Jr., understood that companies must accept failed experiments as part of evolutionary progress. And, in fact, J&J has had a number of prominent failures to "prune away"

in its history, including a foray into kola stimulants (made from sherry and kola nut extract) and colored casts for children that “met an early demise when the pure food dyes turned bed linens into a symphony of colors and hospital laundries into bedlam.”22 It has also had more recent failed ventures in heart valves, kidney dialysis equipment, and ibuprofen pain relievers.23 Failures at J&J have been an essential price to pay in creating a healthy branching tree within the context of its core ideology. In spite of these setbacks, the company has never posted a loss in its 107-year history. J&J’s nancial success makes the company look to outsiders like it was al mapped out by a strategic genius. In reality, J&J’s history is l ed with favorable accidents, trial and error, and periodic failures.

l ed with favorable accidents, trial and error, and periodic failures.

Summed up chief executive Ralph Larsen in 1992: “Growth is a gambler’s game.”24

Similarly, Wal-Mart’s phenomenal success in the 1970s and 1980s can bet er be understood by an evolutionary perspective than a creationist perspective. In fact, the folks at Wal-Mart have always been somewhat amused by the primary explanation of Wal-Mart’s success frequently taught in microeconomics textbooks and MBA strategic planning courses. As Jim Walton summed up: We al snickered at some writers who viewed Dad [Sam Walton] as a grand strategist who intuitively developed complex plans and implemented them with precision. Dad thrived on change, and no decision was ever sacred.25

Indeed, the tools taught in most corporate strategy courses ut erly fail to capture how the company’s strategic competitive advantage came to be—how Wal-Mart at ained its “bril iant” system in the first place. The Wal-Mart system came into being not primarily by a strategic plan formulated by economic genius, but largely by an evolutionary process of variation and selection: “Multiply, vary, let the strongest [experiments] win, and the weakest die.”26 That’s exactly what Wal-Mart made a habit of doing from the time Sam Walton opened his rst store in 1945. Wal-Mart looks like it had bril iant foresight, just as it looks like a species was preplanned and created. As a Wal-Mart executive described: “We live by the mot o,

‘Do it. Fix it. Try it.’ If you try something and it works, you keep it.

If it doesn’t work, you fix it or try something else.”27

Wal-Mart’s famous people greeters, for example, did not come from any grand plan or strategy. A store manager in Crowley, Louisiana, was having trouble with shoplifting, so he tried an experiment: He put a friendly older gentleman by the front door to

“greet” people on their way in and out. The “people greeter” made honest people feel welcome: “Hi! How are ya? Glad you’re here. If there’s anything I can tel you about our store, just let me know.” At

there’s anything I can tel you about our store, just let me know.” At the same time, the greeter sent a message to potential shoplifters that someone would see them if they tried to walk out with stolen merchandise. No one at Wal-Mart—including Sam Walton—had conceived of anything like the greeter concept before the Crowley manager put it in place. Nonetheless, this odd experiment proved e ective and eventual y became standard practice across the company and a competitive advantage for Wal-Mart.

Using Wal-Mart as an example, we can rephrase Darwin’s quote at the beginning of the chapter so it might read like this: It might be far more satisfactory to look at wel -adapted visionary companies not primarily as the result of bril iant foresight and strategic planning, but largely as consequences of a basic process—namely, try a lot of experiments, seize opportunities, keep those that work wel (consistent with the core ideology), and fix or discard those that don’t.

Of course, we should be careful about making a wholesale analogy from biology to business. We do not think al visionary company adaptation and progress comes from an undirected evolutionary process. Certainly it would be inaccurate to view corporations as exactly like biological species.

For one thing, companies do in fact have the ability to set goals and plan. Species do not. And certainly our visionary companies do set goals and make plans—even Wal-Mart, which has simultaneously pursued both BHAGs and evolutionary progress throughout its history. It uses BHAGs to

de ne a mountain to climb, and uses evolution to invent a way to the top. Jack Welch at General Electric embraced this paradoxical mixture of goals and evolution in a management idea labeled “planful opportunism,” as described by Tichy and Sherman in Control Your Own Destiny or Someone Else Wil :

Instead of directing a business according to a detailed . . .

Instead of directing a business according to a detailed . . .

strategic plan, Welch believed in set ing only a few clear, overarching goals. Then, on an ad hoc basis, his people were free to seize any opportunities they saw to further those goals. . .

. [Planful opportunism] crystal ized in his mind . . . after he read Johannes von Moltke, a nineteenth century Prussian general in uenced by the renowned military theorist Karl von Clausewitz [who] argued that detailed plans usual y fail, because circumstances inevitably change.28

For another thing, the process of variation and selection in human organizations di ers from a purely Darwinian process in the natural world. Darwinian selection with species is natural selection—an entirely unconscious process whereby the variations that best t with the environment survive and the weakest variations perish. In other words, species in the natural world do not consciously choose what variations to select; the environment selects. Human organizations, on the other hand, can make conscious selections.

Furthermore, evolution in the natural world has no goal or ideology other than sheer survival of the species. Visionary companies, on the other hand, stimulate evolutionary progress toward desired ends within the context of a core ideology—a process we cal purposeful evolution.

Of course, al companies evolve to some degree. Evolution

“happens” whether we purposeful y stimulate it or not. The real world is ful of chance events that a ect the trajectory of life. It happens to individual people. It happens to organizations. It happens to entire economic systems.

But—and this is the crucial point—visionary companies more aggressively harness the power of evolution. This brings us to the key point of the chapter: IF wel understood and consciously harnessed, evolutionary processes can be a powerful way to stimulate progress. And that's exactly what the visionary companies have done to a

greater degree than the comparison companies.

Of course, purposeful evolution is not the only type of progress stimulated by visionary companies, nor do al of them use it extensively. Some, such as Boeing, IBM, and Disney, have relied more heavily on BHAG stimulated progress. (After al , it would be di cult to build an incremental Boeing 747!) Others, such as Merck, Nordstrom, and Philip Morris, have relied more on continuous self-improvement, as shown in a later chapter.

Nonetheless, wherever they fal along the continuum, the visionary companies have harnessed the power of evolution to a greater degree than the comparison companies in fteen out of eighteen comparative cases. (See Table A.7 in Appendix 3.) 3M: "THE MUTATION MACHINE FROM MINNESOTA"* AND HOW

IT BLEW AWAY NORTON

During our interview with Bil Hewlet of HP, we asked him if there is any company that he greatly admired and saw as a role model. He responded without hesitation: "3M! No doubt about it.

You never know what they're going to come up with next. The beauty of it is that they probably don't know what they're going to come up with next, either. But even though you can never predict what exactly the company wil do, you know that it wil continue to be successful." We agree with Hewlet . Indeed, if we had to bet our lives on the continued success and adaptability of any single company in our study over the next fty to one hundred years, we would place that bet on 3M.

The great irony, of course, is that 3M began life as a failure—a big mistake. Dealt a nearly lethal blow when its initial concept to mine corundum failed (see Appendix 2), the tiny company tried for months to come up with

something—anything—that might prove viable. According to Virginia Tuck in her book, Brand of the Tartan

—The 3M Story:

The board of directors met every week during the cold November of 1904, seeking a solution. The founders were determined not to give up [on the company]. Fortunately their employees felt the same way. Everyone o ered some personal sacrifice [including some working for free] to keep the company going.29

Final y, the board agreed to the suggestion by one of its investors that 3M should shift away from mining and become a manufacturer of sandpaper and grinding wheels. (What else could it do with al that unusable, low-grade grit coming out of its failed mine?) So, out of desperation more than careful planning, 3M gave up mining and made a strategic shift to abrasives.

Enter Wil iam McKnight

From 1907 to 1914, the company struggled with quality problems, low margins, excess inventory, and cash ow crises. But under the quiet and deliberate urgings of a bookish young accountant-turned-sales-manager named Wil iam McKnight, the company began tinkering and experimenting with product improvements that kept the company viable—just barely.

In 1914, the company promoted McKnight, stil in his twenties, to general manager. An instinctive clock builder, McKnight quickly set aside a ve-by-eleven-foot corner storage room, invested $500 for a sink and glue bath for experiments and testing, and thereby created 3M's rst "laboratory."30 After months of experimentation with an arti cial mineral, 3M introduced a new and highly successful cloth abrasive, cal ed "Three-M-Ite"31—a product that propel ed 3M to its rst-ever dividend and was stil listed in 3M's product directory seventy-five years after its invention.32

Although shy and unobtrusive on the outside, McKnight carried within an insatiable curiosity and unrelenting drive for progress,

within an insatiable curiosity and unrelenting drive for progress, frequently working seven days a week to further the cause of the fledgling 3M Corporation and always looking for new opportunities that the company might pursue.33 For example, in January 1920, McKnight opened an unusual let er that read:

Please send samples of every mineral grit size you use in manufacturing sandpaper [to] Francis G. Okie, Manufacturer of printing inks, bronze powders, and gold ink liquids, Philadelphia.34

3M didn't sel raw materials, so there was no business to transact.

But McKnight—curiosity piqued and on the prowl for interesting new ideas that might move the company forward—asked a simple question: "Why does Mr. Okie want these samples?"35

3M thereby stumbled into one of the most important products in its history, for Mr. Okie had invented a revolutionary waterproof sandpaper that would prove immensely useful to automobile manufacturers and repaint shops around the world. (As an aside, Okie had requested samples from numerous mineral and sandpaper companies, but none—except 3M—had bothered to ask why he wanted the samples.) 3M quickly acquired rights to the technology and began sel ing "Wetodry" brand sandpaper.

But that's not al 3M acquired. Indeed, Wetodry wasn't even the most valuable part of the transaction. McKnight—the consummate clock builder who always focused on building the organization—

didn't just sign an agreement with Okie and thank him. He hired him! Okie closed his shop in Philadelphia, moved to St. Paul, and became a key player in developing new inventions at 3M until his retirement nineteen years later.36

"BRANCHING AND PRUNING" AT 3M

3M's near-fatal early days had made a big impression on McKnight.

He therefore wanted 3M to have enough internal variation to

He therefore wanted 3M to have enough internal variation to protect itself:

Our eggs were al in one basket at the beginning [the failed mine]. . . . By diversifying products . . . it was unlikely a trade war would hit them al at once [and] at least part of our business would always be profitable.37

But, as his hiring of Okie il ustrates, McKnight did not want the evolution and expansion of the company to depend only on himself. He wanted to create an organization that would continual y self-mutate from within, impel ed forward by employees exercising their individual initiative. McKnight's approach was captured in phrases that would be chanted often by 3Mers throughout its history:38

"Listen to anyone with an original idea, no mat er how absurd it might sound at first."

"Encourage; don't nitpick. Let people run with an idea."

"Hire good people, and leave them alone."

"If you put fences around people, you get sheep. Give people the room they need."

"Encourage experimental doodling."

"Give it a try—and quick!"

McKnight intuitively understood that encouraging individual initiative would produce the raw material of evolutionary progress

—undirected variation. He also understood that not al such variation would prove favorable:

Mistakes wil be made [by giving people the freedom and encouragement to act autonomously], but. . . the mistakes he or she makes are not as serious in the long run as the mistakes management wil make if it is dictatorial and undertakes to tel those under its authority exactly how they must do their job.

Management that is destructively critical when mistakes are made kil s initiative and it’s essential that we have many people with initiative if we are to continue to grow.39

In fact, 3M’s rst at empt at self-mutation beyond sandpaper—a foray into automobile wax and polish introduced in 1924—proved to be a costly mistake, and the company eventual y discontinued the line.40

But its second mutation proved wildly successful. Working in the give-it-a-try atmosphere created by McKnight, a young 3M

employee named Dick Drew visited a customer site—an auto paint shop—and overheard a violent explosion of particularly vivid profanity. Two-tone auto paint jobs had become popular, but the improvised glues and adhesive tapes separating the two colors failed to mask properly, leaving behind ugly blotches and uneven lines.

“Can’t anyone give us something that wil work?” yowled the paint man, storming across the paint shop.

“We can!” responded the 3M visitor. “I’l bet we can adapt something at our lab to make foolproof masking tape.”41

Drew discovered, however, that 3M had no such readily adaptable product in the lab. So, like any true 3Mer, he invented one: 3M

masking tape. In response to an opportunity disguised as a problem

—a process to be repeated thousands of times—3M had nal y made its rst incremental shift away from sandpaper. Five years later, in response to companies that had contacted 3M looking for a waterproof packaging tape, Drew built on the masking tape technology and invented a product destined to become a household

technology and invented a product destined to become a household item worldwide: Scotch cel ophane tape.

Scotch tape wasn’t planned. No one at 3M had any idea in 1920

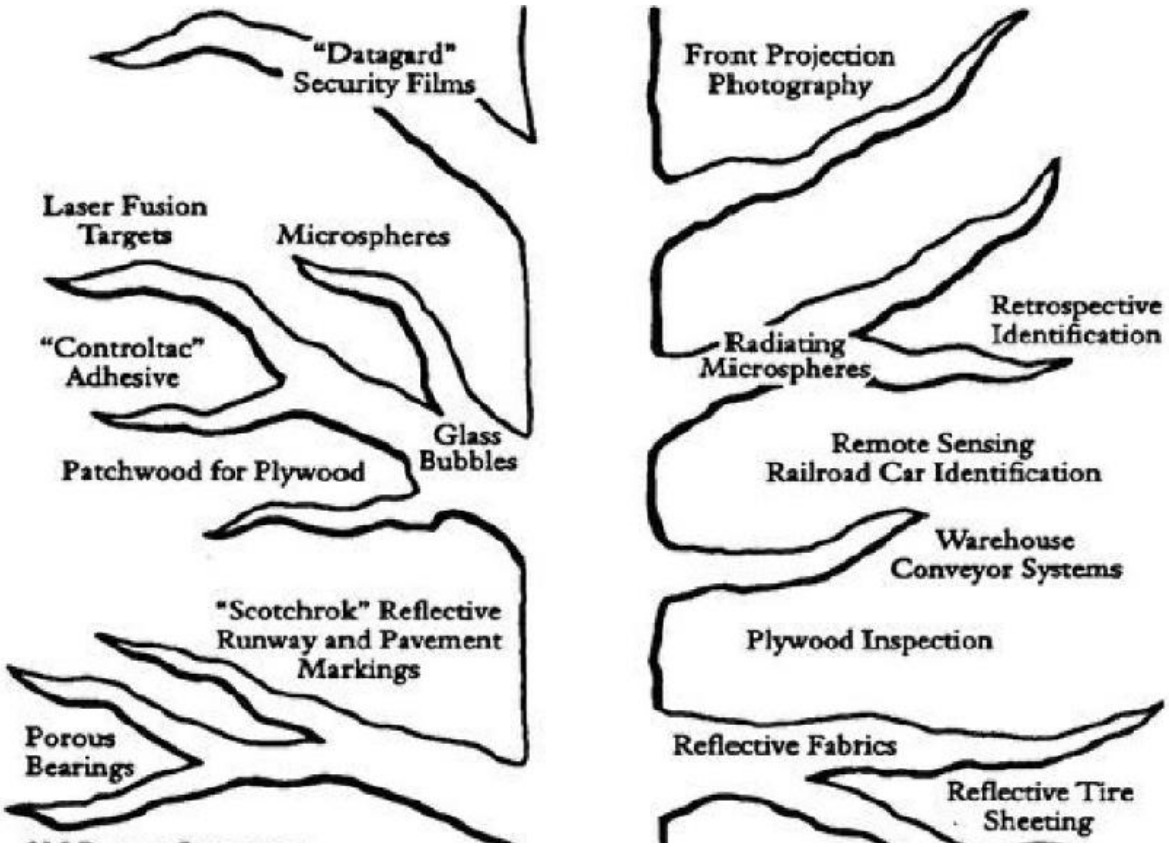
that 3M would enter the tape business, and certainly no one expected that it would become the most important product line in the company by the mid-1930s. Scotch was a natural outgrowth of the organizational climate McKnight created, not the result of a bril iant strategic plan.

Even more important than Scotch tape itself, however, was the fact that 3M institutionalized the evolutionary process that led to Scotch tape. Richard P. Carlton, director of research and later president of 3M, codi ed the strategy of "variation and selection" in 3M's technical guidance manual as early as 1925:

[We] must possess a two- sted generating and testing [process]

for ideas. . . . Every idea evolved should have a chance to prove its worth, and this is true for two reasons: 1) if it is good, we want it; 2) if it is not good, we wil have purchased our insurance and peace of mind when we have proved it impractical.42

Figure 7.A



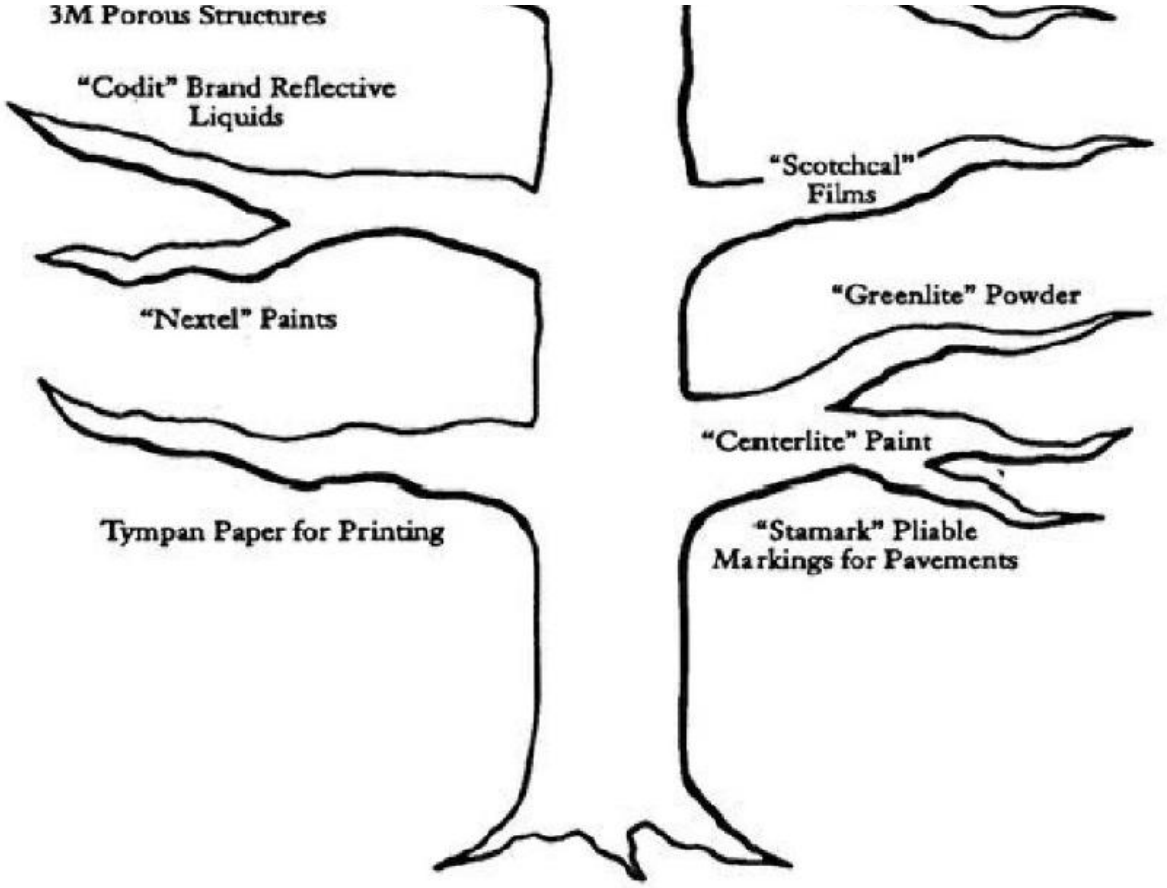


Figure 7.A

A Branching Evolutionary Tree at 3M

Product Evolution from Scotchlite Re ective Sheeting Technology

Product Evolution from Scotchlite Re ective Sheeting Technology as of the mid-1970s, as depicted by 3M corporation in its o cial history.46

Carlton also added two other key criteria for evaluating and selecting ideas —criteria based on 3M's core ideology. First, for an idea to be selected, it had to be basical y new; 3M only wanted to select innovative ideas. Second, it had to meet a demonstrable human need—to solve a real problem. Innovation that didn't "turn into products and processes that someone somewhere wil nd useful" would be of no interest to 3M.43

Interestingly, however, 3M did not select innovations based strictly on market size. With mot oes like “Make a lit le, sel a lit le” and

“Take smal steps,”44 3M understood that big things often evolve from lit le things; but since you can’t tel ahead of time which lit le things wil turn into big things, you have to try lots of lit le things, keep the ones that work and discard the ones that don’t. Operating

“on a simple principle that no market, no end product is so smal as to be scorned,”45 3M adopted a policy of al owing people to sprout tiny “twigs” in response to problems and ideas. Most twigs wouldn’t grow into anything. But anytime a twig showed promise, 3M would al ow it to grow into a ful branch—or perhaps even a ful - edged tree. This branching approach became so conscious at 3M that it sometimes explicitly depicted its product families in

“branching tree” form (Figure 7.A presents an example.) The beauty of the 3M story is that the company transcended McKnight, Okie, Drew, Carlton, and al the other original individuals from the early days of 3M. They created a company—a mutation machine—that would continue to evolve independent of whoever happened to be chief executive. Although 3M’s leaders could never predict where the company would go in the future, they had lit le doubt that it would go far. It became a ticking, whirring, clicking, clat ering clock with a myriad of tangible mechanisms wel aligned to stimulate continual evolutionary progress. For example:

Mechanisms to Stimulate Progress at 3M

To stimulate

“15 percent rule”—a long-standing

unplanned

tradition that encourages technical

experimentation and

people to spend up to 15 percent of

variation that might

their time on projects of their own

turn into successful,

choosing and initiative.47

albeit unexpected,

innovations.

To stimulate

“25 percent rule”—each division is

continuous new

expected to generate 25 percent of

product development

annual sales from new products and

(in 1988, for example,

services introduced in the previous

32 percent of 3M’s

five years. (Upped to 30 percent and

$10.6 bil ion came

shortened to the previous four years,

from new products

beginning in 1993.)48

introduced in the prior

five years).49

“Golden Step” award, granted to

those responsible for successful new

To stimulate internal

business ventures originated within

entrepreneurship and

3M.50

risk taking.

“Genesis Grants”—internal venture

capital fund that distributes parcels of

To support internal

up to $50,000 for researchers to

entrepreneurship and

develop prototypes and market

testing of new ideas.

tests.51

Technology sharing awards, granted

to those who develop a new

To stimulate internal

technology and successful y share it

dissemination of

with other divisions.52

technology and ideas.

“Carlton Society”—a technical honor

To stimulate the

“Carlton Society”—a technical honor

society whose members are chosen in

To stimulate the

recognition for their outstanding and

development of new

original technical contributions

technologies and

within 3M.53

innovation.

“Own business” opportunities—

3Mers who successful y champion a

new product then get the opportunity

To stimulate internal

to run it as his or her own project,

entrepreneurship.

department, or division (depending

on sales levels of product).54

To stimulate

“Dual ladder” career track that al ows

innovation by al owing

technical and professional people to

top professional and

move up without sacrificing their

technical people to

research or professional interests.55

“advance” without

having to switch to a

managerial track.

New product forums, where al

To stimulate new ideas

divisions share their latest products.56

across divisions.

Technical forums, where 3M people

To stimulate cross-

present technical papers and

fertilization of ideas,

exchange new ideas and findings

technology, and

with each other.57

innovation.

To stimulate

innovation via

customer problems

“Problem-solving missions”—smal

that are the seeds of

hit teams sent out to customer sites in

new opportunities,

response to specific, idiosyncratic

perpetual y replicating

customer problems.58

the process by which

customer problems.

the process by which

3M stumbled onto

masking tape in the

1920s.

To speed product

“High Impact Programs”—each

development and

division selects one to three priority

market introduction

products to get to market within a

cycles, which thereby

short, specified time frame.59

increases evolutionary

“variation and

selection” cycles.

Smal , autonomous divisions and

units—42 product divisions in 1990,

To stimulate individual

each with average annual sales of

initiative by promoting

about $200 mil ion; plants—median

a “smal company

size 115 people—are spread across

within a big company”

forty states, mostly in smal towns.60

feel.

To stimulate a sense of

Early use of profit sharing

individual investment

(introduced to key employees in

in the overal financial

1916, expanded to almost al

success of the

employees in 1937).61

company, and thereby

stimulate individual

ef ort and initiative.

Propel ed by these mechanisms, 3M had branched into over sixty thousand products and over forty separate product divisions by 1990. These spanned such wide-ranging categories as roo ng granules, re ective highway signs, video recording tape, overhead projection systems, computer storage disket es, bioelectronic ears, and 3M Post-it notes.

Indeed, the ubiquitous Post-it notes present just one more example of 3M living according to the philosophy that you often get to where you're going by stumbling, but you can only stumble if you're moving. Post-it coinventor Art Fry described:

One day in 1974, while I was singing in church choir, I had one of those creative moments. To make it easier to nd the songs we were going to sing at each Sunday's service, I used to mark the places with lit le slips of paper [but they would ut er out at just the wrong time, leaving me frantic]. I thought, "Gee, if I had a lit le adhesive on these bookmarks, that would be just the ticket," so I decided to check into . . . Spence Silver's adhesive.62

Using the 15 percent rule and fol owing the principle of

"experimental doodling," Spence Silver had invented the aberrant adhesive by just experimenting in the lab—mixing certain chemicals together "just to see what would happen." He explained: The key to the Post-itTM adhesive was doing the experiment. If I had factored it out beforehand, and thought about it, I wouldn't have done the experiment. If I had real y seriously cracked the books and gone through the literature, I would have stopped.

The literature was ful of examples that said you can't do this.63

Re ecting on this somewhat chaotic process, 3M executive Geo rey Nicholson pointed out that "a lot of the things [that led to the Post-it] were accidental." But had Art Fry not been in an environment where people were doodling around with weird adhesives on their 15 percent time, he would not have come up with the product. Furthermore, had Fry and Silver been in an environment that discouraged persistence—had 3M forbidden them from continuing to work on their crazy idea when initial market surveys indicated

that the product would fail—3M Post-it notes wouldn’t exist as a commercial product.64 And that is precisely the point—indeed, the key point from 3M:

ALTHOUGH the invention of the Post-it note might have been somewhat accidental, the creation of the 3M

environment that al owed it was anything but an accident.

The Stark Contrast at Norton

Founded on a good concept, Norton—unlike 3M—made money from the start and, by its fteenth birthday, had multiplied its investor capital fteen-fold (see Appendix 2). While 3M was ghting simply to survive during the period 1902 to 1914, Norton became the industry leader in bonded abrasives and produced superb nancial returns year after year.65 In 1914, Norton was ful y ten times the size and signi cantly more pro table than the struggling 3M company.

Yet, despite its vastly superior early life, Norton failed to keep pace with 3M’s “perpetual motion machine.”66 3M gradual y overtook and eventual y far surpassed Norton in both size and profitability:

Size Comparison

3M

Norton

Ratio: 3M/Norton

1914 Revenues ($000):

264

2,734

.10

1929 Revenues ($000):

5,500

20,300

.27

1943 Revenues ($000):

47,200

131,300

.36

1956 Revenues ($000):

330,807

165,200

2.00

1966 Revenues ($000):

1,152,630 310,472

3.71

1976 Revenues ($000):

3,514,259 749,655

4.69

1986 Revenues ($000):

8,602,000 1,107,100

7.77

1990 Revenues ($000):

13,021,000 Norton Acquired Norton Acquired

Profitability Comparison

Return on Assets, 1962–86:

34.36%

17.72%

1.94

Return on Equity, 1962–86:

23.22%

11.25%

2.06

Return on Sales, 1962–86:

20.27%

9.42%

2.15

How did this happen? How did Norton lose its seemingly insurmountable lead over the failed mine from Minnesota?

Norton rst laid the groundwork for its decline relative to 3M

during the period 1914 to 1945. While 3M instal ed management practices that encouraged individual initiative and experimentation, Norton created

no explicit practices or mechanisms whatsoever to stimulate experimentation and unplanned evolution. While 3M had a relentless drive for progress and impulse for activity (“Give it a try, and quick!”), Norton became a highly centralized and bureaucratic rm characterized by “routinization and stagnation.”67

While 3M seized opportunities that led to waterproof sandpaper and Scotch tape, Norton had an explicit policy not to encourage pursuit of new opportunities outside of its traditional product lines.68 In 1928, 85 percent of Norton sales and 90 percent of pro ts came from Charles Norton’s grinding wheel line, rst introduced a quarter of a century earlier.69 As a Norton research scientist described:

Although we would play with the idea of doing research on new, radical y di erent products, almost al work. . . involved. .

. making bet er grinding wheels. . . You could work on anything you wanted as long as it was round and had a hole in it.

[emphasis ours]70

During the late 1940s and 1950s, 3M pul ed ahead, never to look back. While 3M decentralized and instal ed mechanisms to stimulate continued evolutionary progress, Norton remained centralized and concentrated primarily on cost cut ing and

centralized and concentrated primarily on cost cut ing and ef iciency.71 While 3M branched into seven separate product divisions by 1948, with less than 30 percent of revenues coming from abrasives, Norton stil derived nearly 100 percent of its revenues from its traditional abrasives line.72 While 3M’s Scotch product family generated high cash ow used to fund the development of exciting new technologies like Scotchlite re ective sheeting and Thermo-fax copying technology, Norton’s abrasives products faced a mature market with slowing growth, overcapacity, price cut ing, and declining margins.

In the late 1950s, Norton made a few feeble at empts to branch away from the maturing abrasives industry, but most of these were thwarted by lack of

resources and institutional encouragement.

Interestingly, Norton tried at one point to fol ow 3M's lead into adhesives, introducing a cel ophane tape in 1957 (twenty-seven years after 3M!). But 3M's Scotch brand proved too entrenched and, according to a Norton sales manager, "We never got so bloody in our entire lives [as competing against Scotch]."73

By 1962, 3M had at ained over three times the revenues and nearly twice the pro t margins of Norton. Furthermore, whereas 3M had a wide array of at ractive business units—stable cash generators like adhesives, high growth businesses like Scotchguard fabric protector and magnetic recording tapes, and emerging markets like micro lm and fax—Norton stil derived over 75

percent of its sales from its old-line abrasives business.74 Even more important, 3M's mutation machine was clicking into ful gear, ensuring that it would continue to stumble into thousands of new opportunities long into the future. Norton, in contrast, had ground to a virtual standstil (2 percent sales growth, 0 percent pro t growth) with no signi cant drive for progress or tangible mechanisms to stimulate progress. Wrote Charles W. Cheape in his wel -researched historical account of Norton: By the 1960s, management was largely a caretaker operation to maintain existing modest pro t levels and the possibility of

maintain existing modest pro t levels and the possibility of

[sel ing the company].75

Final y, in response to declining stock multiples relative to 3M

and Carborundum, Norton decided to make a concerted e ort to diversify and progress—like 3M.76 Unlike 3M, however, Norton elected to at ain this array primarily by corporate strategic planning and diversi cation by acquisition—instead of by evolution. In fact, Norton became one of the rst major clients and a dedicated disciple of the Boston Consulting Group (BCG) and its "portfolio management" techniques.* Instead of instal ing

mechanisms to stimulate internal progress, Norton sought simply to buy progress.

As Forbes magazine described, “Norton runs its operations the way most investors run their portfolios.”77

Indeed, one of the great ironies in comparing 3M and Norton comes in the fact that 3M has consistently had a “portfolio” of business units that would be the envy of any strategic planning consulting rm. 3M’s portfolio looks beautiful y planned (just as species look perfectly created), but it actual y came about largely by an undirected evolutionary process of variation and selection. 3M

presents yet another classic example of how a creationist strategic planning perspective can so easily confuse the “why” and “how.”

IF we mapped 3M’s portfolio of business units on a strategic planning matrix, we could easily see why the company is so successful (“Look at al those cash cows and strategic stars!”), but the matrix would ut erly fail to capture how this portfolio came to be in the first place.

Throughout the 1970s and 1980s, 3M continued to evolve into new—and often unexpected—arenas by encouraging individual

new—and often unexpected—arenas by encouraging individual initiative. Norton, in contrast, relied primarily on studies and planning models handed down from its consultants.78 While 3M

continued to stimulate progress by al owing people like Spence Silver to create new markets in part by “accidents, not calculations,”79 Norton’s president proclaimed that “planning must become a way of life.”80 While 3M encouraged “scienti c playfulness,” Norton’s management described its strategic method as

“It’s al derived from military planning.”81 While 3M diversi ed primarily by selecting the best incremental opportunities that emerged from its fruitful and self-stimulated research ef orts, Norton primarily emphasized wholesale acquisitions, “because [internal]

technology and research resources of ered limited opportunity.”82

Final y, in 1990, 3M sailed on to top $13 bil ion in sales and hundreds of innovative new product introductions. Norton, in contrast, found itself the target of an unfriendly takeover bid and ceased to exist as an independent entity.

LESSONS FOR CEOS, MANAGERS, AND ENTREPRENEURS

Using 3M as a blueprint for evolutionary progress at its best, here are ve basic lessons for stimulating evolutionary progress in a visionary company.

1. “Give it a try—and quick!” For 3M, unlike Norton, the modus operandi became: When in doubt, vary, change, solve the problem, seize the opportunity, experiment, try something new (consistent, of course, with the core ideology)—even if you can’t predict precisely how things wil turn out. Do something. If one thing fails, try another. Fix. Try. Do. Adjust.

Move. Act. No mat er what, don’t sit stil . Vigorous action—

especial y in response to unexpected opportunities or speci c customer problems—creates variation. Had McKnight not asked why Okie sent his cryptic let er requesting grit samples, or had Dick Drew not impulsively promised a solution for two-tone paint jobs, or had Spence Silver not done the

two-tone paint jobs, or had Spence Silver not done the experiment that textbooks said could not work, or had Art Fry not tried to solve his church choirbook problem—and so on for a thousand such “ifs”—then 3M wouldn’t be a visionary company.

2. “Accept that mistakes wil be made.” Since you can’t tel ahead of time which variations wil prove to be favorable, you have to accept mistakes and failures as an integral part of the evolutionary process. Had 3M nailed Okie and Drew to the wal (or red them) for the failed car wax business, then 3M

probably wouldn’t have invented Scotch tape. Remember Darwin’s key phrase: “Multiply, vary, let the strongest live, and the weakest die.” In order

to have healthy evolution, you have to try enough experiments (multiply) of di erent types (vary), keep the ones that work (let the strongest live), and discard the ones that don't (let the weakest die). In other words, you cannot have a vibrant self-mutating system—you cannot have a 3M—without lots of failed experiments. As former 3M CEO Lewis Lehr put it: "The secret, if there is one, is to dump the ops as soon as they are recognized. . . . But even the ops are valuable in certain ways. . . . You can learn from success, but you have to work at it; it's a lot easier to learn from a failure."83 Keep in mind J&J's paradoxical perspective, described earlier in the chapter, that failures and mistakes have been an essential price to pay in creating a healthy branching tree that has not once posted a loss in 107

years. At the same time, keep in mind a lesson from the chapter on cult-like cultures: A visionary company tolerates mistakes, but not "sins," that is, breaches of the core ideology.

3. "Take smal steps." Of course, it's easier to tolerate failed experiments when they are just that—experiments, not massive corporate failures. Keep in mind that smal incremental steps can form the basis of signi cant strategic shifts. McKnight's simple answer to Okie led to waterproof sandpaper, opening a large market in the auto industry, leading to Dick Drew's masking tape and then to Scotch

leading to Dick Drew's masking tape and then to Scotch cel ophane tape, which spawned recording tape, and so on. If you want to create a major strategic shift in a company, you might try becoming an "incremental revolutionary" and harnessing the power of smal , visible successes to in uence overal corporate strategy. Indeed, if you real y want to do something revolutionary, it might be best to ask simply for permission to "do an experiment." Recal American Express's incremental steps in nancial services that eventual y became the primary strategic pil ar of the company, and how Wil iam Dal iba used smal experiments to incremental y revolutionize the company into travel services. Keep in mind the image of

"twigs and branches." Or consider the image of "seeds and fruit" used by Masaru Ibuka at Sony to convey the concept of smal , idiosyncratic problems as the starting point of great big opportunities.84*

4. “Give people the room they need.” 3M provided greater operational autonomy and maintained a more decentralized structure than Norton—a key step that enabled unplanned variation. When you give people a lot of room to act, you can’t predict precisely what they’l do—and this is good. 3M

had no idea what Silver, Fry, and Nicholsen would do with their 15 percent “discretionary time.” In fact, the visionary companies decentralized more and provided greater operational autonomy than the comparison companies in twelve out of eighteen cases. (Five were indistinguishable.) To this lesson, we’d add a corol ary: Al ow people to be persistent. Although the Post-it clan had trouble convincing other 3Mers that their weird sticky lit le notes had merit, no one ever told them to stop working on it.

5. Mechanisms—build that ticking clock! The beauty of the 3M

story is that McKnight, Carlton, and others translated the previous four points into tangible mechanisms working in alignment to stimulate evolutionary progress—a step Norton never took. Look back at the list of mechanisms at 3M. Notice how concrete they are. Notice how they send a consistent set

how concrete they are. Notice how they send a consistent set of reinforcing signals. Notice how they have teeth. If you’re a division manager, you damned wel bet er meet the 30

percent new product goal. If you want to become a technical hero at 3M, you’d bet er share your technology around the company. If you want to receive a Golden Foot Award and become an entrepreneurial hero, you’ve got to create a successful new venture with actual products, satis ed customers, and pro table sales. Good intentions alone simply won’t cut it. 3M doesn’t just throw a bunch of smart people in a pot and hope that something wil happen. 3M lights a hot fire under the pot and stirs vigorously!

We nd that managers often underestimate the importance of this fth lesson and fail to translate their intentions into tangible mechanisms. They erroneously think that if they just set the right “leadership tone,” people wil

experiment and try new things. No! It takes more than that. It requires put ing in place items that wil continual y stimulate and reinforce evolutionary behavior. Tick, bong, click, whirr!

What Not to Do

We also found a number of cases where the comparison companies actively suppressed evolutionary progress at critical stages in their history—lessons of what not to do.

Chase Manhat an. Ruled by an obsessively control ing David Rockefel er during the 1960s and 1970s, Chase Manhat an (known as “David’s Bank”) became a fear- l ed environment where managers spent most of their time in meetings—not on making decisions and taking action. Chase managers lived with the mentality, “Whew! One more day gone and I’m not in trouble.”

Even in the late 1980s, many senior managers at the bank wouldn’t try new ideas because “David might not like it.”85 In contrast, Citibank during the same era was a “loosely structured corporation fueled by a chaotic kind of creativity . . . a corporate survival of the

fueled by a chaotic kind of creativity . . . a corporate survival of the t est” among highly talented people wel rewarded for championing innovative ideas.86

Burroughs. During the critical early stages of the computer industry, Burroughs president Ray W. Macdonald sti ed individual initiative. He drove away nearly al talented people who had a penchant for experimentation and publicly humiliated managers for failures and mistakes. A man “who [had] to prove he’s the boss every day,” Macdonald centralized al power and decisions in himself—making the product managers “almost a direct extension of his o ce.” Instead of viewing customer problems as opportunities for evolution (like 3M did), Macdonald prided himself on keeping customers “sul en but not rebel ious.” Even though Burroughs had a technical lead over IBM in computers in the early 1960s, Macdonald inhibited his managers from seizing one of the biggest business opportunities of the century.87

Texas Instruments. During the 1950s and 1960s, Texas Instruments at ained wel -deserved acclaim as a highly innovative company under the guidance of chief executive Patrick Haggerty, who created an environment where ideas and innovations bubbled up from the lowest levels of the company.88 However, Haggerty's successors, Mark Shepard and Fred Bucy, reversed this approach and instituted a top-down, autocratic approach that obliterated TI's entrepreneurial culture through fear and intimidation. If they saw something in a presentation they didn't like, they'd interrupt by saying, "That's bul shit! If that's al you have to say, we don't want to hear it." They'd yel , pound tables, and throw objects across the room. As an ex-TI manager described: "[Shepard and Bucy] don't have faith in their people. . . . Lower managers lost a great deal of authority. Much of their control [was] shifted into headquarters.

Proposed products were de ned and rede ned there ad in nitum.

Eventual y, you were just given a product that was a square peg and told to t it into the round hole of the market."89 During the late 1970s and 1980s, TI lost its position as one of the most respected companies in America and su ered signi cant losses, while HP

companies in America and su ered signi cant losses, while HP

continued to be widely admired and highly profitable.

STICK TO THE KNITTING? STICK TO THE CORE!

In their 1982 book In Search of Excel ence, Peters and Waterman counseled "Stick to the Knit ing," meaning, in their words, "the odds for excel ent performance seem strongly to favor those companies that stay reasonably close to the businesses they know."90 On the surface, such a precept does not square with the evolutionary perspective we've presented in this chapter. Indeed, if 3M had de ned its knit ing as mining or sandpaper, then 3M wouldn't be what it is today—nor would we have those fabulous Post-it tape ags that have helped us keep organized while writing this book.

From our standpoint, thank goodness 3M didn't stick to its knit ing!

Furthermore, Norton stuck much closer to its knit ing than 3M—and just look at the results. Zenith, too, stuck much closer to its knit ing (television and radio) than Motorola—right into decline. J&J had no consumer goods experience when it began sel ing baby powder.

Marriot had no background in hotels when it branched into that business. HP had no expertise in the computer business in the 1960s when it launched its rst computer product. Disney had no knowledge of the theme park business when it created Disneyland.

IBM had no background in electronics when it moved into computers. Boeing had virtual y no experience in the commercial aircraft business when it did the 707. Had American Express stuck to its knit ing (freight express), it probably wouldn't exist today.

We're not saying that evolutionary progress equals wanton diversi cation, or even that a focused business strategy is necessarily bad. Wal-Mart, for example, has thus far remained resolutely focused on one industry—discount retailing—while simultaneously stimulating evolution within that narrow focus. Nor are we saying that the concept of "stick to the knit ing" makes no sense. The real question is: What is the "knit ing" in a visionary company? Our answer: Its core ideology.

Preserve the Core/Stimulate Progress To the ve lessons just given we must therefore add a sixth: Never forget to preserve the core while stimulating evolutionary progress.

Keep in mind that evolution involves both variation and selection.

In a visionary company, like 3M, selection involves two key questions. The rst is simply pragmatic: Does it work? But just as important is the second question: Does it fit with our core ideology?

Since the time of Wil iam McKnight, 3M has sought to create innovative solutions to real human problems—that's what the company is al about. Variations at 3M must be new, useful, and reliable (key elements of 3M's core ideology) in order to stand a good chance of being selected. Certainly no one at 3M would stop Spence Silver from spending his 15 percent

experimental doodling time on his bizarre glue that didn’t glue. But, equal y important, 3M

didn’t select the mutant adhesive until Silver married it to Art Fry’s church choir problem, demonstrated to other 3Mers that the weird lit le Post-it notes were useful, and proved that they could be produced with 3M quality and reliability. You can’t win a “Genesis Grant” to develop a me-too product at 3M. You don’t become a member of the Carlton Society without an original technical contribution. You’l never survive as a division manager if your products prove consistently unreliable in customer hands. 3M

stimulates progress with awesome vigor for a $13 bil ion company, but just as tenaciously preserves its core ideology.

Similarly, if a Wal-Mart experiment doesn’t add value to customers, it wil not be selected. If a J&J branch grows contrary to the credo, it wil be pruned away. If a zealous marketing manager at Hewlet -Packard tries to launch a mutant new business that makes no technical contribution, he or she wil find lit le support. If a Marriot opportunity would cause the company to veer wildly from its purpose of “making people away from home feel that they’re among friends and real y wanted,” it wil look instead for other opportunities. If a Sony “seed” leads only to technical y mundane or low-quality “fruit,” the company wil sow other seeds.

mundane or low-quality “fruit,” the company wil sow other seeds.

Core ideology serves as a bonding glue and guiding force that holds a visionary company together while it mutates and evolves.

For al its mutations, far- ung enterprises, and smal divisions, we found a remarkable cohesion at 3M. Indeed, 3Mers bond to their company with the same almost cult-like dedication we saw at P&G, Disney, and Nordstrom. The same holds true for HP, Motorola, and Wal-Mart—three companies that rival 3M as self-mutation machines, yet cling tenaciously to their core ideologies.

Like the genetic code in the natural world, which remains xed while species vary and evolve, core ideology in a visionary company remains unchanged throughout al its mutations. Indeed, it is the very presence of these xed, guiding ideals that gives a visionary company something extra that evolving species in the natural world can never have: a purpose and a spirit. In the words of Wil iam McKnight re ecting on his sixty- ve-year relationship with 3M and its ideals:

It is proper to emphasize how much we depend on each other

[and our shared values]. Our chal enge, while stressing this important lesson of humanity, lies in maintaining, at the same time, a proper respect for the individual. . . . To continue our progress and service to America and the world, we need a healthy appreciation for those who exercise . . . the option for excel ence, permit ing the creation of something for al of us, enriching lives with new ideas and products. The best and hardest work is done in the spirit of adventure and chal enge.91

* For a more detailed discussion of evolutionary theory, we highly recommend reading books by Stephen J. Gould, especial y Hen's Teeth and Horse's Toes and The Panda's Thumb, and books by Richard Dawkins, especial y The Blind Watchmaker.

* 3M's of icial name is Minnesota Mining and Manufacturing Company.

* This involved categorizing of businesses units into a matrix of "cash cows," "stars,"

"question marks," and "dogs," based on market share and market growth. Using this

"question marks," and "dogs," based on market share and market growth. Using this categorization, a company would make investments, acquisitions, and divestitures.

* Richard Dawkins does a beautiful job of describing incrementalism as a potent evolutionary force in Chapter 3 of The Blind Watchmaker (New York: Norton, 1986).

Chapter 8

Chapter 8

Home-Grown Management

From now on, [choosing my successor) is the most important decision I'l make. It occupies a considerable amount of thought almost every day.

JACK WELCH, CEO, GENERAL ELECTRIC, SPEAKING ABOUT

SUCCESSION PLANNING IN 1991—NINE YEARS BEFORE HIS

ANTICIPATED RETIREMENT.1

One responsibility [we] considered paramount is seeing to the continuity of capable senior leadership. We have always striven to have proven backup candidates available, employed transition training programs to best prepare the prime candidates, and been very open about [succession planning]. . We believe that continuity is immensely valuable.

ROBERT W. GALVIN, FORMER TEAM MEMBER OF THE CHIEF

EXECUTIVE OFFICE, MOTOROLA CORPORATION, 19912

In 1981, Jack Welch became chief executive of the General Electric Company. A decade later, he had become legendary in his own time, "widely acknowledged," according to Fortune magazine, "as the leading master of corporate change in our time."3 To read the myriad of articles on Welch's revolution, we might be tempted to picture him as a savior riding in on a white horse to rescue a severely troubled company that had not changed signi cantly since the invention of electricity. If we did not know Welch's background or GE's history, we might be lured into thinking that he must have been brought in from the outside as "new blood" to shake up a lumbering, complacent behemoth.

Nothing could be further from the truth.

For one thing, Welch was pure GE home-grown stock, having joined the company directly out of graduate school one month before his twenty- fth birthday. It was his rst ful -time job, and he worked at GE for twenty consecutive years before becoming chief executive.4 Like every single one of his predecessors, Welch came from deep inside the company.

Nor did Welch inherit a grossly mismanaged company. Quite the opposite. Welch's immediate predecessor, Reginald Jones, retired as

"the most admired business leader in America."5 A survey of his peers in U.S. News and World Report found Jones to be "the most in uential person in business today"—not once, but twice, in 1979

and 1980. Similar surveys in the Wal Street Journal and Fortune magazine also listed Jones at the top, and a Gal up pol named Jones CEO of the Year in 1980.6 In nancial terms, such as pro t growth, return on equity, return on sales, and return on assets, GE

performed as wel under Jones's eight-year tenure as during Welch's first eight years.7

Furthermore, Welch is not the rst change agent or management innovator in GE's panoply of chief executives. Under Gerard Swope (1922–1939), GE moved dramatical y into home appliances. Swope also introduced the idea of "enlightened management"—new at the

also introduced the idea of "enlightened management"—new at the time to GE—with balanced responsibilities to employees, shareholders, and customers.8 Under Ralph Cordiner (1950–1963) and his slogan "Go for it," GE exploded into a vast array of new arenas—a twentyfold increase in the number of market segments served.9 Cordiner radical y restructured and decentralized the company, instituted management by objective (one of the rst companies in America to do so), created Crotonvil e (GE's now-famous management training and indoctrination center), and wrote the in uential book New Frontiers for Professional Managers.10

Fred Borch's tenure (1964–1972) was "a time of creative ferment"

and a wil ingness to make bold, risky investments in such areas as jet aircraft engines and computers.11 Reginald Jones (1973–1980) became a leader in changing the relationship between business and government.

Indeed, Welch comes from a long heritage of managerial excel ence atop GE. Using pretax return on equity (ROE) as a basic benchmark of nancial performance, GE under Welch's predecessors performed as wel on average since 1915 as GE during Welch's rst decade in o ce—26.29 percent for Welch and 28.29

percent for his predecessors.12 In fact, when we ranked GE chief executive eras by return, the Welch era came in fifth place out of seven. (Every single GE chief executive, including Welch, outperformed rival Westinghouse in ROE during their tenure.) Of course, a straight ROE calculation doesn't take into account the ups and downs of industry cycles, wars, depressions, and the like. So we also rank-ordered GE chief executive eras in terms of average annual cumulative stock returns relative to the market and Westinghouse.13 On this basis, we found Welch in second and fth*

place, respectively, relative to his predecessors. An excel ent performance, but not the best in GE history. (See Table A.9 in Appendix 3.)

This is no way detracts from Welch's immense achievements. He ranks as one of the most e ective chief executive o cers in American business history. But—and this is the crucial point—so do

American business history. But—and this is the crucial point—so do his predecessors. Welch changed GE. So did his predecessors. Welch outperformed his counterparts at Westinghouse. So did his predecessors. Welch became widely admired by his peers—a

"management guru" of his age. So did his predecessors. Welch laid the groundwork for the future prosperity of GE. So did his predecessors. We respect Welch for his remarkable track record. But we respect GE even more for its remarkable track record of continuity in top management excel ence over the course of a hundred years.

TO have a Welch-caliber CEO is impressive. To have a century of Welch-caliber CEOs al grown from inside—wel , that is one key reason why GE is a visionary company.

In fact, the entire selection process that resulted in Welch becoming CEO was traditional GE at its best. Welch is as much a re ection of GE's heritage as he is a change agent for GE's future. As longtime GE consultant Noel Tichy and Fortune magazine editor Stratford Sherman described in Control Your Own Destiny or Someone Else Wil :†

The management-succession process that placed venerable General Electric in Welch's hands exempli es the best and most vital aspects of the old GE culture. [Prior CEO Reginald] Jones spent years selecting him from a group of candidates so highly quali ed that almost al of them ended up heading major corporations. . . . Jones insisted on a long, laborious, exactingly thorough process that would careful y consider every eligible candidate, then rely on reason alone to select the best quali ed.

The result ranks among the nest examples of succession planning in corporate history.14

Jones took the rst step in that process by creating a document entitled "A Road Map for CEO Succession" in 1974—seven years before Welch became CEO. After working closely with GE's Executive Manpower Sta , he spent two years paring an initial list of ninety-six possibilities—al of them GE insiders—down to twelve, and then six prime candidates, including Welch. To test and observe the candidates, Jones appointed each of the six to be "sector executives," reporting directly to the Corporate Executive O ce.

Over the next three years, he gradual y narrowed the eld, put ing the candidates through a variety of rigorous chal enges, interviews, essay contests, and evaluations.15 A key part of the process included the "airplane interviews," wherein Jones asked each candidate:

"You and I are ying in a company plane. It crashes. You and I are both kil ed. Who should be chairman of General Electric?" (Jones learned this technique from his predecessor, Fred Borch.)16 Welch eventual y won the grueling endurance contest over a strong eld; runner-up candidates went on to become

president or CEO of such companies as GTE, Rubbermaid, Apol o Computer, and RCA.17 As an interesting aside, more GE alumni have become chief executives at American corporations than alumni of any other company.18

Westinghouse, in contrast to GE, has been rocked by periods of turmoil and discontinuity at the top. Westinghouse has had nearly twice as many CEOs as GE, some with tenure of less than two years.

The average Westinghouse CEO remained in o ce eight years, compared to fourteen years at GE. Furthermore, Westinghouse has periodical y resorted to hiring CEOs from the outside, rather than building on internal talent, as GE has always done. George Westinghouse was kicked out of the company in 1908 and replaced by two outsiders (both bankers) during a reorganization.19 In 1946, another outsider (again a banker) became CEO.20 Then in 1993, Westinghouse went outside yet again for a CEO—bringing in an ex-PepsiCo executive to run the company after it posted bil ion-dol ar losses in 1991 and 1992.21

We would like to comment more explicitly about the internal

We would like to comment more explicitly about the internal succession process at Westinghouse, but we found scant material on this topic in outside publications or from the company itself. But that, too, is an interesting point. GE has paid such prominent, conscious at ention to leadership continuity that both the company and outside observers have commented greatly on it. Westinghouse has paid signi cantly less at ention to management development and succession planning.

PROMOTE FROM WITHIN TO PRESERVE THE CORE

Throughout this book, we've downplayed the role of leadership in a visionary company. Yet it would be outright wrong to state that top management doesn't mat er at al . It would be naive to suggest that any random person could become CEO of a visionary company, and it would stil continue to tick along in top form. Top management wil have an impact on an organization—in most cases, a signi cant impact. The question is, wil it

have the right kind of impact? Wil management preserve the core while making its impact?

Visionary companies develop, promote, and careful y select managerial talent grown from inside the company to a greater degree than the comparison companies. They do this as a key step in preserving their core. Over the period 1806 to 1992, we found evidence that only two visionary companies (11.1 percent) ever hired a chief executive directly from outside the company, compared to thirteen (72.2 percent) of the comparison companies.

Of 113 chief executives for which we have data in the visionary companies, only 3.5 percent came directly from outside the company, versus 22.1 percent of 140 CEOs at the comparison companies. In other words, the visionary companies were six times more likely to promote insiders to chief executive than the comparison companies. (See Table 8.1 in the text and Table A.8 in Appendix 3.)

PUT another way, across seventeen hundred years of combined history in the visionary companies, we found only four individual cases of an outsider coming directly into the role of chief executive.

In short, it is not the quality of leadership that most separates the visionary companies from the comparison companies. It is the continuity of quality leadership that mat ers—continuity that preserves the core. Both the visionary companies and the comparison companies have had excel ent top management at certain points in their histories. But the visionary companies have had bet er management development and succession planning—key parts of a ticking clock. They thereby ensured greater continuity in leadership talent grown from within than the comparison companies in fteen out of eighteen cases. (See Table A.8 in Appendix 3.)

Table 8.1

Companies that Put Outsiders into Chief Executive Roles22 1806–1992

Visionary

Comparison

Companies

Companies

Philip Morris

Ames

Walt Disney

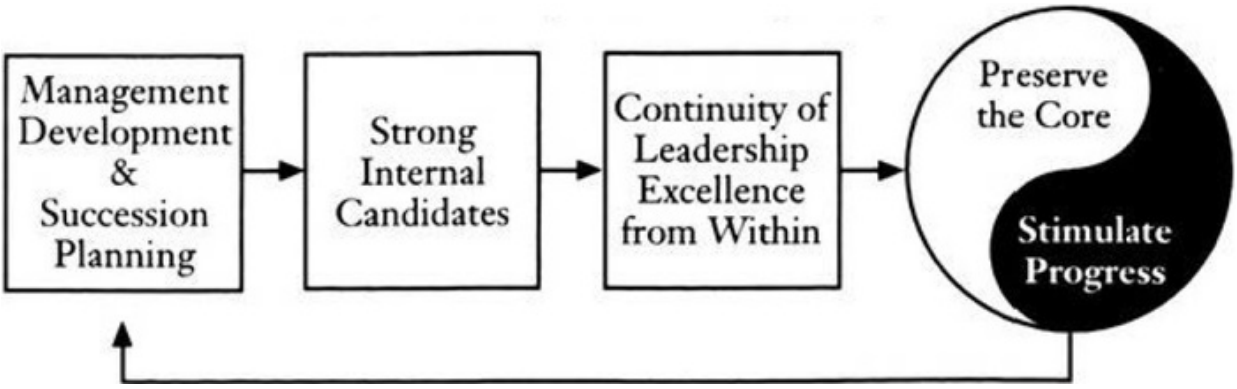
Burroughs

Chase Manhat an

Colgate

Columbia

General Motors



Howard Johnson

Kenwood

Norton

R.J. Reynolds

Wel s Fargo

Westinghouse

Zenith

NOTE: IBM hired an outsider as CEO (Louis Gerstner) in 1993, the year after we cut o the data for our analysis. We did not count Wil iam Al en at Boeing as an outsider because he had been actively involved in major management decisions (such as reorganizations, R&D investments, nancing structures, and business strategy) for twenty years as the company's lawyer and fourteen years as a highly active director prior to becoming chief executive—

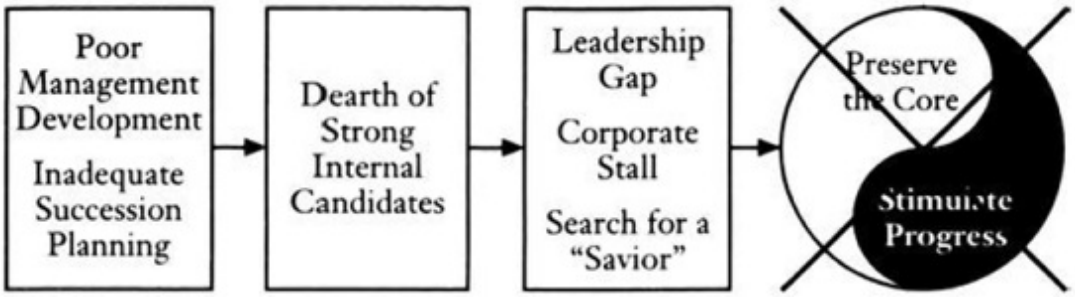
a post he then held for twenty-three years. We are indebted to Morten Hansen for his background analysis for this table.

You can think of it as a continuous self-reinforcing process—a

"leadership continuity loop":

Leadership Continuity Loop

Absence of any of these elements can lead to management



Absence of any of these elements can lead to management discontinuities that force a company to search outside for a chief executive—and therefore pul the company away from its core ideology. Such discontinuities can also impede progress, as a company stal s due to turmoil at the top. In fact, we saw a pat ern common in the comparison companies that stands in contrast to the

“management continuity loop” in the visionary companies. We came to cal this pat ern the “leadership gap and savior syndrome”: Consider the fol owing examples of Colgate versus P&G and Zenith versus Motorola.

Discontinuity at Colgate Versus Talent Stacked Like Cordwood at P&G

Up until the early 1900s, Colgate was an extraordinary company.

Founded in 1806, the company had at ained over a century of steady growth and was roughly the same size as P&G. It also had the strongest early statement of core ideology of any comparison company in our study, complete with core values and an enduring purpose articulated by Sidney Colgate.23 By the 1940s, however, Colgate had fal en to less than half the size and less than one-fourth the pro tability of P&G, and remained at that ratio on average for the next four decades. It also drifted from its strong core ideology and became a company with a much weaker self-identity than Procter.

What happened? The answer lies partly in poor succession

What happened? The answer lies partly in poor succession planning and resulting management discontinuities at Colgate relative to P&G. Colgate had been run entirely by insiders (al members of the Colgate family) for its rst four generations of top management. However, the company failed in its management development and succession planning during the early 1900s. By the late 1920s, Colgate faced such a shortage of wel -developed successors that it resorted to a merger with Palmolive-Peet which

“put an alien management in o ce.”24 As a 1936 Fortune article described:

The brothers Colgate were get ing old. Gilbert, the President, was seventy, Sidney was sixty-six. And Russel , who was only fty- ve, took no great part in the management. . . . Sidney’s son, Bayard Colgate, was. . . barely six years out of Yale. That, for a Colgate, was too young. So the brothers listened at entively when Charles Pearce o ered to merge Palmolive-Peet with Colgate. . . . [After the merger], they resigned themselves to virtual retirement.

Pearce, who became chief executive of the combined company, proved to be a disaster. Driven by “a mania for expansion,”25

Pearce concentrated on an unsuccessful at empt to merge Colgate into a giant conglomerate with Standard Brands, Hershey, and Kraft.

Distracted by his quest for sheer size, Pearce ignored the fundamentals of Colgate’s business and its basic values. He even moved headquarters from Jersey City, New Jersey (where it had resided close to the soap making operations for eighty-one years), to Chicago.26 During Pearce’s reign from 1928 to 1933, Colgate’s average return on sales declined by more than half (9.0 to 4.0

percent). During the same period P&G’s return on sales actual y increased slightly (11.6 to 12.0 percent), despite the Depression.27

Pearce severely breached Colgate’s core ideology, especial y its core value of fair dealing with retailers, customers, and employees.28 He drove such hard bargains with retailers that they

employees. He drove such hard bargains with retailers that they revolted:

Druggists were especial y irate: they had long been accustomed to the conservative dealings of the Colgates. The tactics of the Pearce . . . management pleased them not at al . And since Colgate . . . was depending on substantial pro ts from its toilet articles, . . . the defection of the druggists . . . was a ruinous blow.29

Final y, according to Fortune, the Colgate family “roused up from its lethargy to look astonished on what Charles Pearce had done.”30

Bayard Colgate (age thirty-six) replaced Pearce as chief executive, moved the headquarters back to New Jersey, and tried to reawaken the Colgate values and reestablish forward progress. However, Pearce’s reign of havoc made the CEO job particularly di cult for the young Colgate, who had not been prepared or groomed for such a role. He held the post for only ve years, before passing the job to international sales manager Edward Lit le. Colgate fel behind P&G, never to catch up. During the decade immediately after the

Pearce era, P&G grew twice as fast and at ained four times the profits as Colgate.31

With the Pearce debacle, Colgate began a pat ern of poorly handled top management succession. Edward Lit le (chief executive from 1938 to 1960) ran Colgate as a one-man show.32 “Colgate was dominated by [Lit le]—and ‘dominate’ is not too strong a term,”

wrote Forbes.33 We found no evidence that Lit le could imagine Colgate without himself at the helm, or that the company had any succession plan in place. Final y, at age seventy-nine, Lit le retired, and Colgate had to cal home one of its international vice presidents to ride in as a “White Knight” to turn around the company whose domestic operations were in serious trouble.34

In 1979, Colgate experienced yet another tumultuous transition at the top when chief executive David Foster was removed—against his wil —by the Colgate board. Like his predecessors before him,

his wil —by the Colgate board. Like his predecessors before him, Foster “carried on a tradition of one-man rule at Colgate, and it suited his temperament.”35 In fact, Foster actual y impeded succession planning, according to an article in Fortune: To the end, David Foster did his best to give his heir apparent the least possible power—or even visibility. . . . Foster [sought]

an ef ective way to silence the board on the mat er of succession.

Colgate had an unwrit en policy at the time cal ing for top executives to leave at sixty. Foster was then fty- ve and was saying he would adhere to the policy, but it is a tel ing comment that when [his potential heir] received an o er to become president of [another company], he took it.36

Rocked again by turmoil at the top, Colgate slid further behind P&G in both sales and pro tability during the decade after Foster’s ouster, dropping to one-fourth the size of P&G in both sales and profits. Certainly factors other than chaotic management contributed to Colgate’s relative decline, including

P&G's superior R&D e orts and greater economies of scale. But—and this is the crucial point—

Colgate rst lost its chance to run even with P&G during the Pearce turmoil, and then continued with ts and stal s at critical transition points.

P&G, in contrast, su ered no lurches in management like those at Colgate, even though the two companies faced exactly the same chal enge of moving beyond family governance at precisely the same point in history. During the 1920s, while the Colgate brothers neglected to develop worthy successors, Cooper Procter had been careful y preparing Richard Deupree—an insider who had joined P&G in 1909—to assume the role of chief executive.37 Under Cooper Procter's watchful eye and coaching, Deupree assumed ever greater responsibility, eventual y becoming chief operating o cer in 1928 (the exact same year that Colgate "put an alien management in o ce"). In 1930, Deupree began a successful eighteen-year stint as chief executive—the rst nonfamily CEO in

eighteen-year stint as chief executive—the rst nonfamily CEO in P&G's history. Then, like Procter before him, Deupree ensured continuity from generation to generation, as John Smale (CEO

1981–1989) described:

Deupree held a pivotal role in carrying out and handing down the character of the Company. He knew—and learned from—the only two people to precede him as Chief Executive O cer since Procter & Gamble was incorporated in 1890. And he also knew

—and helped teach—the next four people to hold the job after him. I am one of these four people—only the seventh Chief Executive of this Company in the nearly 100 years since it's been incorporated.38

P&G understood the importance of constantly developing managerial talent so as to never face gaps in succession at any level, and therefore to preserve its core throughout the company. Dun's Review once commented that "P&G's program for developing managers is so thoroughgoing and

consistent that the company has talent stacked like cordwood—in every job and in every level.”39

Al the way to senior management ranks, P&G aims at al times to

“have two or three people equal y capable of assuming responsibility of the next step up.”40 Deupree’s successor, Neil McElroy, explained: “Our [development] of people who. . . wil be the management of the future goes on year after year, in good times and bad. If you don’t do it, X years from now we wil have a gap.

And we can’t stand a gap.”41

Leadership Gaps at Zenith Versus Motorola’s Deep Bench

“Commander” Eugene F. McDonald, Jr., the bril iant and domineering mastermind founder of Zenith Corporation, had developed no capable successors by the time he died in 1958.

McDonald’s closest associate, Hugh Robertson, took over as chief

McDonald’s closest associate, Hugh Robertson, took over as chief executive, but he was already past the age of seventy. Fortune magazine commented in 1960, “Zenith is traveling largely on momentum imparted by . . . forceful personalities that belong to its past rather than its future.”42 Robertson held on for two years and passed the company to the highly conservative corporate counsel Joseph Wright, who al owed the company to drift away from its core value of fanatical dedication to high quality.43 Insider Sam Kaplan became chief executive in 1968, but died suddenly in 1970.

Facing yet another management vacuum at the top, Zenith felt the need to nd an outside savior to rescue the company. After an intensive search, Zenith hired John Nevin from Ford.44

After an unspectacular tenure and continued drift from the company’s original values, Nevin resigned in 1979, forcing ex-chairman Wright to come out of retirement at age sixty-eight “to try to put the company back on its feet.”45 Wright elevated Revone Kluckman to chief executive, but he—

like Kaplan before him—died suddenly two years into his tenure, forcing yet another crisis transition.

In contrast, Motorola had none of the same turmoil—a model example of management continuity that preserves the core. Founder Paul Galvin began grooming his son Bob Galvin years before the formal transfer of power. The younger Galvin began work at Motorola in 1940 while stil in high school, sixteen years before becoming president and nineteen years before becoming chief executive.46 Paul Galvin made sure that his son grew up from deep inside the business, having him begin as a stock clerk with a minimum of special privileges. When young Bob reported to the personnel of ice at seven A.M. to apply for a summer job, a manager o ered to take him directly—out of turn—to see the head of personnel. Galvin declined. He wanted to go through the process from the bot om, just like every other Motorolan had to.47

Bob Galvin moved up through the business, nal y sharing presidential duties for the three years preceding his father's death.

"In time, my father . . . announced we would act as one. Either of us

"In time, my father . . . announced we would act as one. Either of us could act on any issue. The other would support."48 Paul Galvin's biographer wrote that the transfer of experience from one generation to the next was a daily process that lasted years.49 Then, almost immediately after his father's death in 1959, Bob Galvin began thinking about management development and succession planning for the next generation—a quarter of a century before he would pass the reins.

To reinforce the concept of leadership continuity from within, Bob Galvin discarded the traditional concept of a chief executive o cer in favor of the concept of a Chief Executive Of ice occupied by "team members." "Members" plural is not a misprint. Galvin envisioned an of ice held by multiple team members (usual y three) at any one time, rather than a single leader. Galvin did this in part to ensure that the company would have capable insiders wel positioned to assume leadership responsibility at any point in time.

“There was always a private but clear understanding of succession hierarchy,” wrote Galvin. “We were prepared for unschedulable change throughout that quarter of a century [that I was a member of the Chief Executive Of ice.]”50

Motorola implemented this “O ce Of” concept not only at the chief executive level, but also at lower levels (with two or three team members per o ce)—a key mechanism for management development and leadership continuity throughout the company.

Aware that such an approach was controversial among management thinkers —not to mention awkward to manage—Galvin argued that the benefits far outweighed the costs, as he wrote in 1991: If an O ce Of at the top was to succeed, it needed candidates who had experienced and adapted to such a . . . role earlier in their career. It fol owed that the experience base had to be provided by similar assignments at business unit levels. . . . The O ce Of has its disadvantages. Some incumbents just plain don’t prefer it. . . . Mixed signals can emanate from the o ce. . .

. As a consequence, periodical y some O ce Ofs have not

. As a consequence, periodical y some O ce Ofs have not clicked. Some players departed or were benched. But it has worked wel more often. . . . The proof is in the using. On balance it is a gure of merit. It has consistently provided the best informed succession answers. It absolutely helped to provide the proven source of Chief Executive O ce candidates.51

In sixty- ve years of history, Motorola has su ered no leadership discontinuities like those at Zenith. Motorola has continual y reinvented itself (from bat ery repair for Sears radios to integrated circuits to satel ite communications systems), yet displayed unbroken continuity in top management excel ence steeped in its core values, even when it has unexpectedly lost top management talent. For example, in 1993, George Fisher—a key member of the Chief Executive O ce—left Motorola to become chief executive at Kodak. At most companies, the unexpected departure of such a capable chief executive would cause disarray, turmoil, and a management gap—as happened at Zenith when CEOs died unexpectedly. But not at Motorola. The other two members of the chief

executive o ce (Gary Tooker, age fty-four, and Christopher Galvin, age forty-three) simply clicked into place to shoulder the extra responsibilities. Simultaneously, Motorola began an internal process to select a new third team member from its deep bench of wel -trained managerial talent. In an article appropriately titled

“Motorola Wil Be Just Fine, Thanks,” the New York Times summed up: “Mr. Fisher had the luxury of making his move secure in the knowledge that Motorola could hardly be bet er positioned to absorb such a surprise.”52

Management Turmoil and Corporate Decline

Westinghouse, Colgate, and Zenith and are not the only examples of top management turmoil and discontinuity in our study. We found numerous such examples in the comparison companies.

numerous such examples in the comparison companies.

It happened at Melvil e Corporation in the 1950s, when Ward Melvil e found he hadn’t adequately prepared any successors.

Desperate to pass the company to somebody—anybody—because he was “anxious to retire,” Melvil e gave the job to a production manager who was il prepared and didn’t even want the job. The company declined precipitously. “I was shocked to see how fast the numbers can deteriorate when the men are wrong,” Melvil e commented later.53 Melvil e then launched a year-long search for an outside CEO to come in and turn around the company.

Fortunately, Melvil e had the wisdom to abandon the outside search and turn instead to developing a promising young insider who, over time, proved to be a very capable CEO.54

It happened at Douglas Aircraft in the late 1950s, as founder Donald Douglas turned his company over to an inadequately prepared Donald Douglas, Jr. “The younger Douglas could not possibly l his old man’s shoes,” wrote one biographical account.

“The son retaliated against those he considered his enemies [i.e., most of his father’s management], and . . . replaced experienced administrators with those who joined his team.”55 As Douglas, Jr., placed key friends in high positions, talented managers left the company when it needed them most to face the ever-growing onslaught from Boeing. During the early 1960s, the loss of managerial talent caught up with Douglas as it tried desperately—

and unsuccessful y—to catch up to Boeing. Facing an epic crisis in 1966, Douglas, Jr., sought salvation in the form of a merger with McDonnel Aircraft.

It happened at R.J. Reynolds in the 1970s, as company director J.

Paul Sticht—ex-president of Federated Department Stores—“helped torpedo the planned succession of an heir apparent, then maneuvered himself into the presidency,” according to Business Week.56 Sticht assumed chief executive responsibility and restocked the management team almost entirely with outsiders.57 Later, in one of the most famous senior management disasters in corporate history, Ross Johnson (a truly alien element to the company’s

history, Ross Johnson (a truly alien element to the company’s heritage) became CEO after RJR acquired Nabisco Brands in 1985.

Wel -documented in Barbarians at the Gate: The Fal of RJR

Nabisco by Bryan Burroughs and John Helyar, the Johnson era ended with a junk-bond- nanced takeover by nanciers Kohlberg Kravis Roberts & Co., who brought in yet another outside CEO.

It happened at Ames, as the founding family watched its creation destroyed by outsiders who were brought in due to lack of capable successors. It happened at Burroughs with its importation of outsider W. Michael Blumenthal from Bendix, when the company faced “an obvious gap in our management structure,” brought on because “new managers were not groomed during the years of [Ray W.] Macdonald’s dictatorial rule.”58 It also happened at Chase Manhat an, Howard Johnson, and Columbia Pictures.

It also happened at two recent high-pro le cases in our visionary companies: Disney and IBM.

At Disney, Walt developed no capable successor, and the company oundered during the 1970s as managers ran around asking themselves, “What would Walt do?” To save the company, the board hired outsiders Michael Eisner and Frank Wel s in 1984.

We’d like to point out, however, that Disney consciously did its best to preserve ideological continuity even while selecting an outsider.

Ray Watson, who guided the CEO search, wanted Eisner for the job not only because he had a stel ar track record in the industry, but also because Eisner understood and appreciated—indeed, had unabashed enthusiasm for—the Disney values.59 As one Disneyite summed up: “Eisner turned out to be more Walt than Walt.”60

The Disney case il ustrates an important point. If you’re involved with an organization that feels it must go outside for a top manager, then look for candidates who are highly compatible with the core ideology. They can be di erent in managerial style, but they should share the core values at a gut level.

What should one make of IBM’s 1993 decision to replace its internal y grown CEO with Louis V. Gerstner—an outsider from R.J.

Reynolds with no industry experience? How does this massive

Reynolds with no industry experience? How does this massive anomaly t with what we’ve seen in our other visionary companies? It doesn’t t. IBM’s decision simply doesn’t make any sense to us—at least not in the context of the seventeen hundred cumulative years of history we examined in the visionary companies.

Perhaps IBM’s board was operating under the assumption that dramatic change requires an outsider. To that assumption we respond simply: Jack Welch. The “leading master of corporate change in our time” spent his entire career inside the company that made him CEO. IBM has had one of the most thorough management development programs of any corporation on the planet. It has a long track record of hiring extraordinarily talented people.

We simply cannot believe that IBM didn’t have at least one Welch-caliber change agent inside the company. Indeed, we would be surprised if there weren’t at least a dozen insiders equal y capable as anyone IBM could at ract from the outside.

AS companies like GE, Motorola, P&G, Boeing, Nordstrom, 3M, and HP have shown time and again, a visionary company absolutely does not need to hire top management from the outside in order to get change and fresh ideas.

IBM’s board and search commit ee wanted dramatic change and progress. With Mr. Gerstner, they’l probably get it. But the real question for IBM—indeed, the pivotal issue over the next decade—

i s : Can Gerstner preserve the core ideals of IBM while simultaneously bringing about this momentous change? Can Gerstner be to IBM what Eisner has been to Disney? If so, then IBM

might regain its revered place among the world’s most visionary companies.

THE MESSAGE FOR CEOS, MANAGERS, AND ENTREPRENEURS

Simply put, our research leads us to conclude that it is extraordinarily di cult to become and remain a highly visionary company by hiring top management from outside the organization.

Equal y important, there is absolutely no inconsistency between promoting from within and stimulating significant change.

If you’re the chief executive or board member at a large company, you can directly apply the lessons of this chapter. Your company should have management development processes and long-range succession planning in place to ensure a smooth transition from one generation to the next. We urge you to keep in mind how the Walt Disney Company—an American icon—got itself in a terrible x because Walt neglected to build this vital part of a ticking clock. We urge you to not repeat the mistakes made at Colgate, Zenith, Melvil e, Ames, R.J. Reynolds, and Burroughs. Do not fal into the trap of thinking that the only way to bring about change and progress at the top is to bring in outsiders, who might dilute or destroy the core. The key is

to develop and promote insiders who are highly capable of stimulating healthy change and progress, while preserving the core.

If you're a manager, the essence of this chapter also applies to you. If you're building a visionary department, division, or group within a larger company, you can also be thinking about management development and succession planning, albeit on a smal er scale. If you were hit by a bus, who could step into your role? What are you doing to help those people develop? What planning have you done to ensure a smooth and orderly transition when you move up to higher responsibilities? (You can also be asking those at higher levels what steps they have taken to ensure a smooth succession.) Final y, if you nd a visionary company that you t real y wel with, it might be worth your while to develop your skil s within that company rather than job hop.

How does this chapter apply to smal er companies and entrepreneurs? Clearly, a smal company cannot have a chief

entrepreneurs? Clearly, a smal company cannot have a chief executive succession process that begins with ninety-six candidates, as happened at GE. Nonetheless, smal to midsize companies can be developing managers and planning for succession. Motorola was stil a smal company when Paul Galvin began careful y grooming his son to become chief executive. The same holds true for family transitions during the early days of Merck, P&G, J&J, Nordstrom, and Marriot . Sam Walton began thinking about future management of the company before the company had even fty stores.61 Bil Hewlet and Dave Packard began formal management development programs and thoughtful succession planning in the 1950s, when the company had five hundred employees.62

Interestingly, nearly al of the key early architects in the visionary companies remained in o ce for long periods of time (32.4 years on average), so few of the companies faced actual succession while stil young and smal . Nonetheless, many of them were planning for succession long before the actual moment of succession. If you're a smal -business person, this indicates taking a very long-term view.

The entrepreneurial model of building a company around a great idea, growing quickly, cashing out, and passing the company o to outside professional managers wil probably not produce the next Hewlet -Packard, Motorola, General Electric, or Merck.

From the perspective of building a visionary company, the issue is not only how wel the company wil do during the current generation. The crucial question is, how wel wil the company perform in the next generation, and the next generation after that, and the next generation after that? Al individual leaders eventual y die. But a visionary company can tick along for centuries, pursuing its purpose and expressing its core values long beyond the tenure of any individual leader.

* Given GE's recent superb performance in the early 1990s and Westinghouse's decline, we expect that the Welch era ranking wil improve significantly on this dimension.

† Two books cover the Welch selection process in detail. One is Tichy and Sherman's.

The other is The New GE, by Robert Slater. In this section, we have drawn background data from both of these fine books.

Chapter 9

Chapter 9

Good Enough Never Is

Don’t bother just to be bet er than your contemporaries or predecessors. Try to be bet er than yourself.

WILLIAM FAULKNER1

People would always say to my father, “Gee whiz, you’ve done real wel . Now you can rest.” And he would reply, “Oh, no. Got to keep going and do it bet er.”

J. WILLARD MARRIOTT, JR., CHAIRMAN, MARRIOTT, 19872

The critical question asked by a visionary company is not “How wel are we doing?” or “How can we do wel ?” or “How wel do we have to perform in order to meet the competition?” For these companies, the critical question is “How can we do bet er tomorrow than we did today?” They institutionalize this question as way of life—a habit of mind and action. Superb execution and performance natural y come to the visionary companies not so

performance natural y come to the visionary companies not so much as an end goal, but as the residual result of a never-ending cycle of self-stimulated improvement and investment for the future.

There is no ultimate nish line in a highly visionary company.

There is no “having made it.” There is no point where they feel they can coast the rest of the way, living of the fruits of their labor.

Visionary companies, we learned, at ain their extraordinary position not so much because of superior insight or special “secrets”

of success, but largely because of the simple fact that they are so terribly demanding of themselves. Becoming and remaining a visionary company requires oodles of plain old-fashioned discipline, hard work, and a visceral

revulsion to any tendency toward smug self-satisfaction. As J. Wil ard Marriot , Sr., summed up while reflecting on the essence of success: Discipline is the greatest thing in the world. Where there is no discipline, there is no character. And without character, there is no progress. . . . Adversity gives us opportunities to grow. And we usual y get what we work for. If we have problems and overcome them, we grow tal in character, and the qualities that bring success.3

During the 1980s, “continuous improvement” became a management catchphrase. But at the visionary companies, the concept has been commonplace for decades—over a century in some cases. Wil iam Procter and James Gamble, for example, used the concept of continuous improvement as far back as the 1850s!4

Wil iam McKnight brought the concept to life at 3M in the 1910s. J.

Wil ard Marriot embraced the concept soon after opening his rst root beer stand in 1927. David Packard incessantly used the term

“continuous improvement” beginning in the 1940s.

Our research ndings clearly support the concept of continuous improvement, but not as a program or management fad. In a visionary company, it is an institutionalized habit—a disciplined way of life—ingrained into the fabric of the organization and

way of life—ingrained into the fabric of the organization and reinforced by tangible mechanisms that create discontent with the status quo. Furthermore, visionary companies apply the concept of self-improvement in a much broader sense than just process improvement. It means long-term investments for the future; it means investment in the development of employees; it means adoption of new ideas and technologies. In short, it means doing everything possible to make the company stronger tomorrow than it is today.

MECHANISMS OF DISCONTENT

You’re probably get ing the impression that the visionary companies are not exactly comfortable places. And that’s precisely the impression you should be get ing.

COMFORT is not the objective in a visionary company.

Indeed, visionary companies instal powerful mechanisms to create discomfort—to obliterate complacency—and thereby stimulate change and improvement before the external world demands it.

Like great artists or inventors, visionary companies thrive on discontent. They understand that contentment leads to complacency, which inevitably leads to decline. The problem, of course, is how to avoid complacency—how to remain self-disciplined once a company has at ained success or become number one in its eld.

How can a company keep alive that “ re that burns from within”

that impels people to keep pushing, to never be satis ed, and to always search for improvement?

Richard Deupree at Procter & Gamble pondered these exact questions, worried that P&G’s rise to prominence in the early

questions, worried that P&G’s rise to prominence in the early twentieth century might cause the company to become fat, happy, and complacent. What to do? He could have gone around giving passionate speeches about the importance of remaining disciplined.

He could have writ en memos and pamphlets about the dangers of complacency. He could have met personal y with managers throughout the company to impress upon them the inherent value of change and self-improvement. But Deupree knew that the company needed something more than just good intentions to improve for the future. He wanted something with teeth in it, something that would continual y impel progress from within.

He therefore responded favorably to a radical proposal made in 1931 by marketing manager Neil McElroy, namely to create a brand management structure that would al ow P&G brands to compete directly with other P&G brands, almost as if they were from di erent companies. P&G already had the best people, the best products, the best marketing muscle. So why not pit the best of P&G

against the best of P&G? If the marketplace doesn't provide enough competition, why not create a system of internal competition that makes it virtual y impossible for any brand to rest on its laurels?

Implemented in the early 1930s, the competing brand management structure became a powerful mechanism at P&G for stimulating change and improvement from within. The structure proved so e ective that it was eventual y copied in one form or another by virtual y every American consumer products company, including Colgate—but not until nearly three decades later.5

The point here is not that a successful company should necessarily create internal competition in order to keep itself vibrant. The point is that it should have some sort of discomfort mechanisms in place to combat the disease of complacency—a disease that inevitably begins to infect al successful organizations. Internal competition is one such mechanism, but not the only one. We found a variety of mechanisms across the visionary companies.

Merck in the 1950s embraced a strategy of consciously yielding market share as products became low-margin commodities, thus forcing itself to produce new innovations in order to grow and

forcing itself to produce new innovations in order to grow and prosper.6 Motorola used an innovate-or-die mechanism similar to Merck's, with its practice of cut ing o mature product lines that accounted for signi cant sales volume, thus forcing itself to l the gap with new products. Motorola did this with televisions and car radios.7 (Chairman Robert Galvin kept the last car radio made at its U.S. plant on his desk as a reminder of Motorola's "refounding as a front-runner in higher technologies.")8 Motorola l ed the gaps via a mechanism cal ed "Technology Road Maps"—a comprehensive

tool for benchmarking technology progress versus competitors and anticipated market needs up to ten years into the future.9

General Electric institutionalized internal discomfort with a process cal ed "work out." Groups of employees meet to discuss opportunities for improvement and make concrete proposals.

Upper managers are not al owed to participate in the discussion, but must make on-the-spot decisions about the proposals, in front of the whole group —he or she cannot run, hide, evade, or procrastinate.10

Boeing created discomfort for itself with a planning process that we came to cal "eyes of the enemy." It assigns managers the task of developing strategy as if they worked for a competing company with the aim of obliterating Boeing. What weaknesses would they exploit? What strengths would they leverage? What markets could be easily invaded? Then, based on these responses, how should Boeing respond?11

Early in Wal-Mart's history, Sam Walton began using a mechanism cal ed "Beat Yesterday" ledger books (see example p. 189). These ledger books tracked sales gures on a daily basis in comparison to the exact same day of the week one year earlier. Wal-Mart used these ledgers as a stimulus to push the standards up and up, forever.12

Nordstrom created an environment where people can never stop trying to improve. Sales per hour (SPH) rankings measure success relative to one's peers. Thus, there are no absolute standards that, once achieved, al ow an employee to relax. Nordstrom also

once achieved, al ow an employee to relax. Nordstrom also careful y tracks customer feedback and links employee compensation and advancement to the trends.13 Bruce Nordstrom explained:

If you real y listen to your customers, they're never happy—

they'l let you know what you're doing wrong—and it just forces you to get bet er. Fat headedness is what bothers me most. I think we get so much

press about our service and al this stu and we start believing it and then we think we’re bet er than the customer. And then we’re dead right there.14

Hewlet -Packard also has a history of ranking employees relative to their peers. Managers must argue for the rankings of their people in group ranking sessions with other managers who are just as intent on arguing that their people should get the top rankings. The process continues until al the managers agree on a pooled ranking from top to bot om. It’s a tough, draining, and uncomfortable process that makes it virtual y impossible for any employee to at ain a high rating and then coast the rest of the way.15

HP also instal ed a powerful mechanism cal ed “pay as you go” (a policy against taking out any long-term debt). Sophisticated nancial models have shown this policy to be total y irrational—

that a company like HP should take out debt in order to maximize its value. But such models fail to account for the powerful internal e ect of a no-debt policy: It enforces discipline. By refusing to take on long-term debt in order to fund growth, HP forced itself to learn how to fund its 20-plus percent average annual growth (not to mention its ongoing 10 percent of sales investment in R&D) entirely from within. Such a mechanism may not be considered rational, but it produced a whole company of incredibly disciplined general managers skil ed at operating with a level of leanness and ef iciency usual y only found in smal , cash-constrained companies. As an HP

vice president described:

Wal-Mart “Beat Yesterday” ledger book November

1984

1985

1986

1987

1988

1st Monday

1st Tuesday

1st Weds.

1st Thursday

1st Friday

1st Saturday

1st Sunday

1st WEEK

This philosophy [pay-as-you-go] provides great discipline al the way down. If you want to innovate, you must bootstrap. It is one of the most powerful, least understood in uences that pervades the company.16

And the comparison companies? We found no evidence that they instal ed mechanisms of discomfort to the same degree as the visionary companies. The sense of ruthless self-discipline simply does not show up as consistently in their history. Indeed, we found that some of the comparison companies consciously took the comfortable road, at times milking the company in the short-term at the expense of the long-term—a behavior pat ern almost unheard of in the visionary companies.

BUILD FOR THE FUTURE (AND DO WELL TODAY)

Put yourself in the shoes of Bil Hewlet and David Packard in 1946.

You have a smal company, less than ten years old. You've just watched your revenue decline by 50 percent as defense contracts

watched your revenue decline by 50 percent as defense contracts dried up at the end of World War I . You face an imminent cash ow crisis that threatens

the very survival of the company, and you have no prospects in commercial markets that would immediately solve the problem. David Packard described the situation: We were al celebrating the end of the war but, at the same time, we realized there was going to be a very serious problem.

Our sales dropped from about a mil ion and a half to something like half of that in 1946, and we were very worried as I remember about whether we could hold on or not.17

What would you do in the same situation? What do you think they did?

First, they cut payrol by approximately 20 percent. Faced with evaporating government contracts, they simply had to reduce headcount in order to save the company. Second, they vowed that they would never again al ow themselves to become overly dependent on the hire-and-fire government contract business.18

Hewlet and Packard didn't stop there, however. They took a remarkably bold and farsighted step for a smal company reeling from a 40 percent decline in business: They decided to take advantage of the fact that al defense-funded institutions were facing hard times, and they therefore set out to hire talented scientists and engineers who had been engaged at government-funded research laboratories during the war. They also decided to keep their best and most expensive in-house talent, not wanting to make cuts that would have been damaging in the long term. Packard explained: Even though our business was going down, we decided we were going to hire . . . these bright young engineers. We hired Ralph Lee and Bruce Wholey and Art Fong and Horace Overacker and several other people right at the time when our company was going down because we were convinced that this was a time to get some good technical people.19

The remarkable thing about this decision was that Hewlet and Packard were not at al sure whether the postwar business climate would provide enough support for their talented sta . It was a gamble. And, in fact, the company struggled through a painful postwar adjustment and didn't start to grow rapidly again until 1950. But HP's farsighted investment in 1946 paid o handsomely over the next two decades as its engineering team introduced a slew of innovative and profitable new products.20

As the company grew, Bil Hewlet and David Packard constantly emphasized the importance of never compromising the long-term principles and health of HP for the sake of quick, expedient pro ts.

For example, David Packard pointed out in 1976 that anytime he discovered an employee had violated HP's ethical principles in order to increase short-term divisional pro ts, the individual involved was red—no exceptions, no mat er what the circumstance, no mat er what the impact on the immediate bot om line.21 HP's long-term reputation, in Packard's view, had to be protected under al circumstances. Yet Hewlet and Packard never mistook their farsighted perspective as a reason to let up the pressure and coast complacently through the current year. To il ustrate, here are two quotes from Packard speaking to HP

managers in the 1970s:

David Packard

David Packard

Fifty-Year Perspective

One-Year Perspective

"If we continue our dedication to the

"It is just as easy to make a profit today as principles that have carried us through it wil be tomorrow. Actions taken which the first 50 years, we wil be assured of result in reducing short-term profit in the our continuing success over the next 50 hope of increasing long-term profit are years. I'm sure I speak for Bil as wel as very seldom successful. Such actions are myself, in saying we are very, very

myself, in saying we are very, very almost always the result of wishful

proud of what you're doing and we

thinking and almost always fail to achieve

expect you to do even bet er in the

an overal optimum performance.”23

future.”22

In fairness, Patrick Haggarty—Texas Instrument’s counterpart to David Packard—also guided his company with a long-term perspective. In fact, he also hired top scientists from research labs in 1946—though TI was not facing a dire nancial crisis like that at HP.24

However, as TI evolved beyond Haggarty, it veered away from the di cult chal enge put forth at HP, namely to manage with a fty-year horizon and perform extremely wel in the current year. In the 1970s, TI, unlike HP, began introducing cheap consumer products and making drastic, unexpected price cuts—often at the expense of its dealers—in a bid to grab market share. One dealer commented in 1979, “TI is so bent on get ing the price down that when it comes to the consumer, they squeeze the quality out.”25 The strategy back red, leaving TI with nancial losses and a damaged reputation. Whereas HP never lost sight of either the short or long term, TI’s quest for sheer size and growth in the short term eroded its foundation and heritage as a creator of excel ent and innovative products and severely damaged its long-term prospects.26

Hewlet -Packard versus Texas Instruments il ustrates one of the key di erences we saw between the visionary and comparison companies. Visionary companies habitual y invest, build, and manage for the long term to a greater degree than the comparison companies in our study. “Long term” at a visionary company does not mean ve or ten years; it means multiple decades—fifty years is more like it. Yet, at the same time, they do not let themselves o the hook in the short term.

MANAGERS at visionary companies simply do not accept the

proposition that they must choose between short-term performance or long-term success. They build rst and foremost for the long term while simultaneously holding themselves to highly demanding short-term standards.

Again, comfort is not the objective in a visionary company.

Greater Long-Term Investment in the Visionary Companies

Taking a systematic look across the entire set of companies in our study, we found substantial evidence that the visionary companies invested for the future to a greater degree than the comparison companies. By analyzing annual nancial statements dating back to the year 1915, we found that the visionary companies consistently invested more heavily in new property, plant, and equipment as a percentage of annual sales than the comparison companies (thirteen out of fteen cases).* They also plowed a greater percentage of each year's earnings back into the company, paying out less in cash dividends to shareholders (twelve out of fteen cases, plus one indistinguishable case). (See Table A.10 in Appendix 3.) Few of our companies reported R&D expenditures as a separate line item for long periods of their history, and some, such as Wal-Mart and Marriot , simply don't have R&D in the conventional sense. However, for those pairs on which we have information, the visionary companies invested more heavily in R&D as a percentage of sales in every single case (eight out of eight).27 In the pharmaceutical industry, where basic research is arguably the most important factor in long-term corporate health, our visionary companies outinvested our comparison companies in R&D as a percentage of sales by over 30 percent. Merck, for example, has consistently invested more heavily in basic research as a percentage

consistently invested more heavily in basic research as a percentage of sales than P zer since the 1940s and more heavily than every other company in the industry since the late 1960s—a key reason for Merck's preeminent position in the 1980s.28

The visionary companies also invested much more aggressively in human capital via extensive recruiting, employee training, and professional development programs. Merck, 3M, P&G, Motorola, GE, Disney, Marriot , and IBM al made signi cant investments in their "universities" and "education centers" for intensive training and development programs. (The comparison companies invested in training, but not as early or to the same degree.) Motorola, for example, targets forty hours per week of training per employee per year and requires that every division spend 1.5 percent of

payrol on training.29 Al managers at Merck at end a three-day training course on recruiting and interviewing techniques; Merck CEO Roy Vagelos routinely begins meetings with the question: “Whom did you recruit lately?”30 In general, we noticed that the visionary companies tended to have much more elaborate and extensive recruiting and interviewing processes than the comparison companies, requiring a signi cant professional and managerial time investment. At HP, for instance, potential new employees usual y interview with at least eight people in the division where they wil eventual y work.

Final y, the visionary companies invest earlier and more aggressively than the comparison companies in such aspects as technical knowhow, new technologies, new management methods, and innovative industry practices. Instead of waiting for the world to impose the need for change, they’re likely to be earlier adopters than the comparison companies. Throughout its history, GE

embraced new management methods—management by objectives, decentralization,

employee

empowerment—earlier

than

Westinghouse. In fact, GE has historical y been a leader in adopting new management methods. In 1956, GE published and distributed to al its managers a two-volume work entitled Some Classic Contributions to Professional Managing. The volumes contained a col ection of thirty-six papers representing the most signi cant

col ection of thirty-six papers representing the most signi cant management thinking to date and were designed to spread powerful management ideas throughout the ranks of GE.

Merck was one of the rst American companies in history to ful y embrace a “zero defects” TQM process—back in 1965.31 Merck was also the rst to

adopt state-of-the-art nancial analysis techniques based on Monte Carlo computer simulations that al ow it to make strategic decisions with extraordinarily long time horizons.32 Philip Morris adopted state-of-the art production technologies more quickly than R.J. Reynolds during the pivotal 1960–1985 era.33

Motorola commit ed to new technologies that would likely be important down the road, while Zenith held back until forced by the market to adopt them. Walt Disney habitual y invested in new lm technologies, quickly seizing upon them while its rivals fearful y contemplated their possible drawbacks.34 Citibank consistently invested in important new methods earlier than Chase Manhat an—three decades earlier in some cases:
Adopted Earlier at Citibank Than at Chase Manhat an Divisional profitability statements

Merit pay

Management training programs

Col ege recruiting programs

Organization by industry (versus geography)

National charter

Automated tel er machines

Credit cards

Retail branches

Foreign branches

Not only were the comparison companies slower and more timid, but in a number of cases management shirked investment for the future or, worse, milked the company at a crucial stage in its history. For example, during the 1970s and 1980s, while Philip Morris relentlessly invested in its goal of becoming number one (see the BHAGs chapter), R.J. Reynolds executives used the company primarily as a platform for their own self-

aggrandizement and enrichment.35 They bought a eet of corporate jets (referred to as the “RJR Air Force”), built expensive airport hangars (dubbed the

“Taj Mahal of corporate hangars”), constructed elaborate and unneeded corporate o ces (cal ed the “Glass Menagerie”), decorated with expensive antique furniture and exquisite artwork (“the only company I’ve ever worked for without a budget,”

according to one vendor), and sponsored celebrity athletes and sporting events with dubious marketing value. When asked about the wisdom of these expenses, CEO F. Ross Johnson responded simply: “A few mil ion dol ars are lost in the sands of time.”36

McDonnel Douglas consistently demonstrated a penny-wise, pound-foolish fanatical at ention to the short-term bot om line that has inhibited bold leaps into the future (including hesitation on building a jumbo jet). By the 1970s, this conservatism had become a repetitive historical pat ern at McDonnel Douglas. A 1978

Business Week article characterized McDonnel Douglas as “infused with a penchant for penny-pinching” and described how its conservative, short-term, bot om-line orientation led to the company’s decision to abandon development of new generation jetliners: “Known for frugality and prudence, McDonnel -Douglas is concentrating on derivative designs . . . rather than launch costly new development programs.”37 The contrast between “reaching out to tomorrow” at Boeing versus the “penny-pinch conservatism” at McDonnel Douglas has expressed itself in key decisions for over half a century.

half a century.

For decades, Colgate neglected investments in new product development, marketing programs, and plant modernization. Here are representative quotes from Forbes and Fortune, commenting on Colgate across time:

1966: “Turning out new products that succeed requires a finely-tuned marketing machine. Colgate simply did not have one after 22 years of Lit

le’s rule [1938–1960]. Lesch launched a crash program to create almost overnight what it had taken P&G 30 years to nurture and perfect.”38

1969: “The company had not produced any major new products in years. None were even in the works, and between 1956

and 1960, Colgate’s domestic volume had actual y declined.”39

1979: “Foster, desperate to keep earnings rising, was cut ing back on advertising and holding down on research and development spending—the lifeblood of any marketing company. In short, he was borrowing from the future with the hope that tomorrow would bring a stronger economy to bail him out.”40

1982: “Colgate is now virtual y the only consumer products company in the country with no new major product program.”41

1987: “Profits from the core business propped up Foster’s acquisitions. That squeezed financial y and stifled important things such as new product development and plant modernization.”42

1991: “Developing breakthrough products costs big money. But Mark, an accomplished cost cut er, may not be wil ing to pay the price that other companies are paying. Colgate sets aside less than 2% of its revenues for research and development. Compare that with P&G’s almost 3%.”43

development. Compare that with P&G’s almost 3%.”

MARRIOTT VERSUS HOWARD JOHNSON: THE DECLINE OF A GREAT AMERICAN FRANCHISE

In 1960, Howard Johnson, Sr., abruptly retired from the company he built, leaving it in the hands of his son, Howard, Jr. “I’ve never seen anything like it,” said a longtime associate. “Most men don’t want to let go of what they’ve built. He just walked away, and that was that.”44 He left behind one of the best-known American businesses, with seven hundred restaurants and hotels dot ing highways around the country, al of them adorned with eye-catching bright orange roofs and beloved by middle America. J. Wil ard

Marriot , Jr., commented at the time that he hoped the company he had inherited from his father could one day be as successful as Howard Johnson.45 By 1985, Marriot had not only become as successful as Howard Johnson, but had far surpassed it—by a factor of seven times.

What happened? The answer lies largely in Marriot ’s relentless self-discipline as a continuous improvement machine versus Howard Johnson’s complacency. As Howard Johnson, Jr. described in a 1975 interview: “We are a reacting company. We don’t try to anticipate the future. In this business, you can’t look too far ahead, maybe two years.”46 Unlike Marriot , Howard Johnson refused to invest in restaurants and hotels tailored to speci c market segments and eventual y found itself “segmented to death.” While Marriot continued to invest and build for the future even during recessions, Howard Johnson became overly focused on cost control, e ciency, and short-term nancial objectives.47 While Marriot pushed itself to continual y improve the quality and value of its service, Howard Johnson became “overpriced and understa ed purveyors of pal id food, hamstrung by outdated ideas.”48 A former Howard Johnson executive commented: “Ho Jo always seemed to have ideas to upgrade the restaurants and hotels, but they never wanted to spend

upgrade the restaurants and hotels, but they never wanted to spend the money.”49 An executive from Imperial Group, the company that bought Howard Johnson in 1979, explained why it sold the company six years later for less than half the acquisition price: Pro ts were arti cial y high. Its reinvestment had been neglected. Pennies had been pinched on sta ng, menus and renewal. It was milking the business by not reinvesting.50

At one point, Johnson, Jr., moved to elegant quarters in New York’s Rockefel er Center (leaving the rest of his management team in Boston) and spent the bulk of his time socializing in elite society.51 Summed up a competitor:

Every time I saw Howard Johnson he was always tel ing me how he was going to cut costs. I don’t think he spent enough time at his restaurants. If he’d eaten at his own restaurants more instead of lunching at 21 [a fashionable New York restaurant], he might have learned something.52

In contrast, Marriot , Jr., lived a relatively modest lifestyle guided by what he cal s “the Mormon work ethic” (seventy hours per week) that drove him to personal y visit up to two hundred Marriot facilities per year—and to expect similar travel schedules from other top managers.53

Even more important, Marriot , Jr., translated his personal drive for progress into the very fabric of the institution. Here is a short list of mechanisms for stimulating improvement we saw at Marriot during this era, but not at Howard Johnson:

• “Guest Service Index” (GSI) reports based on customer comment cards and detailed surveys of customers selected at random. Managers can track their GSI by computerized reports and make corrective adjustments. GSI reports af ect bonus

and make corrective adjustments. GSI reports af ect bonus compensation and promotion opportunities.54

• Annual performance reviews for every employee—hourly and managerial.55

• Incentive bonuses reaching al the way down to cof ee shop managers; bonuses based on service, quality, and cleanliness in addition to cost ef ectiveness.56

• Profit-sharing program available to employees at al levels of the company; participation in the program where individual employees invest up to 10 percent of their wages in a profit-sharing trust, thus creating a tangible link between the individual employee’s welfare and the progress of the company.57

• Investment in extensive interviewing and screening to hire quality employees; new Marriot hotels routinely interview over a thousand employees for one hundred openings.58

• Management and employee development programs; by the early 1970s, Marriot was spending up to 5 percent of pretax profits on management development.59

• Investment in a ful -scale corporate “Learning Center” (built in 1970) equipped with state-of-the-art

audio/visual/computerized teaching technologies. A 1971

Forbes article described: “Hundreds of Marriot managers stream in and out for refresher courses, right along with new employees involved in ‘total immersion’ training on how to prepare and serve.”60

• “Phantom Shoppers”—inspectors that pose as customers. If the service has been good, the phantom pul s out an ID card and hands the server the card with a $10 bil clipped to the back. If the service needs improvement, there’s no $10 bil and the card says “Oops!” People who get an “Oops!” are sent to retraining.

Each employee gets up to three chances to improve.61

THE MESSAGE FOR CEOS, MANAGERS, AND ENTREPRENEURS

The decline of Howard Johnson relative to Marriot presents an excel ent example of nearly al the lessons of this chapter. But we could have selected any number of examples. We could describe how Ames always lagged behind Wal-Mart in adopting new retailing innovations, and how it delayed investment in new technologies such as bar code scanning because the payback period was longer than two years.62 We could describe how Norton milked certain divisions to such an extent that windows had not been washed for months because everyone expected each day to be the last.63 We could describe in detail how Zenith neglected to invest in solid-state electronics (the last company to switch to printed circuit boards in the 1950s), dragged its feet into color TVs, cut R&D to keep earnings up, and milked Zenith’s reputation for quality—al while Motorola and the Japanese kept improving themselves. And on and on.

Indeed, the discipline of self-improvement stands out as one of the most clear di erences between the visionary and comparison companies. Taking into account mechanisms of discomfort and long-term investments for the future, we found that the visionary companies have driven themselves

harder for self-improvement in sixteen out of eighteen cases (see Table A.10 in Appendix 3).

If you're involved in building and managing a company, we urge you to consider the fol owing questions:

• What "mechanisms of discontent" can you create that would obliterate complacency and bring about change and improvement from within, yet are consistent with your core ideology? How can you give these mechanisms sharp teeth?

• What are you doing to invest for the future while doing wel today? Does your company adopt innovative new methods and technologies before the rest of the industry?

• How do you respond to downturns? Does your company

• How do you respond to downturns? Does your company continue to build for the long-term even during dif icult times?

• Do people in your company understand that comfort is not the objective—that life in a visionary company is not supposed to be easy? Does your company reject doing wel as an end goal, replacing it with the never-ending discipline of working to do bet er tomorrow than it did today?

We see good news and bad news in this chapter. The good news is that one of the key elements of being a visionary company is strikingly simple: Good old-fashioned hard work, dedication to improvement, and continual y building for the future wil take you a long way. It's pret y straightforward stu , easily within the grasp of every manager. The bad news is that creating a visionary company requires huge quantities of good old-fashioned hard work, dedication to improvement, and continual y building for the future.

There are no shortcuts. There are no magic potions. There are no work-arounds. To build a visionary company, you've got to be ready for the long, hard pul . Success is never nal. It's a lesson Howard Johnson never learned.

THE PARABLE OF THE BLACK BELT

Picture a martial artist kneeling before the master sensei in a ceremony to receive a hard-earned black belt. After years of relentless training, the student has nal y reached a pinnacle of achievement in the discipline.

“Before granting the belt, you must pass one more test,” says the sensei.

“I am ready,” responds the student, expecting perhaps one nal round of sparring.

“You must answer the essential question: What is the true meaning of the black belt?”

“The end of my journey,” says the student. “A wel -deserved reward for al my hard work.”

reward for al my hard work.”

The sensei waits for more. Clearly, he is not satis ed. Final y, the sensei speaks. “You are not yet ready for the black belt. Return in one year.”

A year later, the student kneels again in front of the sensei.

“What is the true meaning of the black belt?” asks the sensei.

“A symbol of distinction and the highest achievement in our art,”

says the student.

The sensei says nothing for many minutes, waiting. Clearly, he is not satis ed. Final y, he speaks. “You are stil not ready for the black belt. Return in one year.”

A year later, the student kneels once again in front of the sensei.

And again the sensei asks: “What is the true meaning of the black belt?”

“The black belt represents the beginning—the start of a never-ending journey of discipline, work, and the pursuit of an ever-higher standard,” says the student.

“Yes. You are now ready to receive the black belt and begin your work”

* Number of cases varies based on information consistently available. Financial and entertainment companies, for example, report dif erent accounting line items than industrial companies. We excluded Sony/Kenwood.

Chapter 10

Chapter 10

The End of the Beginning

This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.

WINSTON S. CHURCHILL1

It’s become fashionable in recent decades for companies to spend countless hours and sums of money drafting elegant vision statements, values statements, mission statements, purpose statements, aspiration statements, objectives statements, and so on.

Such pronouncements are al ne and good—indeed, they can be quite useful—but they’re not the essence of a visionary company.

Just because a company has a “vision statement” (or something like it) in no way guarantees that it wil become a visionary company! If you walk away from this book thinking that the most essential step in building a visionary company is to write such a statement, then you wil have missed the whole point. A statement might be a good first step, but it is only a first step.

The essence of a visionary company comes in the translation of its core ideology and its own unique drive for progress into the very

core ideology and its own unique drive for progress into the very fabric of the organization—into goals, strategies, tactics, policies, processes, cultural practices, management behaviors, building layouts, pay systems, accounting systems, job design—into everything that the company does. A visionary company creates a total environment that envelops employees, bombarding them with a set of signals so consistent and mutual y reinforcing that it’s virtual y impossible to misunderstand the company’s ideology and ambitions.

We’ve made this point in a number of ways in preceding chapters.

But it is an important enough point—indeed, it just might be the most important point to take away from this book—that we choose to bring our ndings to a close with this short capstone chapter il ustrating the central concept of alignment that has run throughout these pages. By “alignment” we mean simply that al the elements of a company work together in concert within the context of the company’s core ideology and the type of progress it aims to achieve

—its vision, if you like. (We see vision as simply a combination of an enduring core ideology plus envisioned progress for the future.) Consider the fol owing three examples of alignment at its best.

THE POWER OF ALIGNMENT: FORD, MERCK, AND HEWLETT-PACKARD

Ford

We wrote in an earlier chapter about how executives at the Ford Motor Company wrote a statement of “Mission, Values, and Guiding Principles” (MVGP) as a key part of its remarkable 1980s turnaround. The MVGP listed people and products ahead of pro ts and emphasized the central importance of quality improvement, employee involvement, and customer satisfaction. But the MVGP

statement did not bring about the turnaround, at least not by itself.

Had Ford not dramatical y translated the MVGP into reality—had it not aligned its operations, strategies, and tactics to be consistent

not aligned its operations, strategies, and tactics to be consistent with the MVGP—then Ford would have failed in the turnaround and we wouldn’t be writing about it in this book.

For the rst time in its history, Ford ful y implemented statistical quality control and instructed production managers to shut down a line in the event of a bad part or faulty material.2 But Ford didn’t stop with its own plants. It also carried the drive for quality to its suppliers with its “Q1” program that screened suppliers based on quality ratings and whether the supplier had

also implemented statistical quality control. Ford provided education seminars and hands-on assistance for its suppliers to help them meet Q1

standards, which Ford continual y increased over time.3

Ford created employee involvement programs, thus making line employees key team members of the quality improvement e ort.

Not only that, it created participative management programs to instruct managers and supervisors in how to support the employee involvement programs. It further reinforced these programs by placing greater emphasis on participative management skil s as a factor in promotions.4 To keep employees bet er informed and therefore feeling more involved with the company, Ford invested in a satel ite television system to communicate Ford news and information to employees before they would have a chance to see it on TV or read it in the newspaper.5 To forge a direct link between employees and the success of the company, Ford negotiated a pro t-sharing clause with labor—the rst ever in its contract with the United Auto Workers.6 Ford's relationship with labor improved to such an extent in the early 1980s that the union made Philip Caldwel an honorary member upon his retirement—the rst CEO

of an American car company to ever be inducted into the UAW.7

To get the company back to its "car" roots, Ford created a separate group with the BHAG of creating a completely new car, truly world-class in its segment and designed with the customer more in mind than at any time since the Model T. Ford backed what became known as the Taurus/Sable program with a $3.25

bil ion budget, the largest in Ford's history by a factor of four times.

bil ion budget, the largest in Ford's history by a factor of four times.

With Taurus/Sable, Ford began soliciting input from production workers about the design years before it was ready for production.8

To reinforce the importance of customer input and satisfaction, Ford's highest-ranking executives at ended focus group sessions to hear directly what customers had to say. The company instituted an extensive "Quality-Commitment-Performance" fol ow-up program to solicit customer input on the quality of dealer service and created the prestigious President's Award to recognize dealerships with the highest customer ratings.9

In hundreds of ways—big and smal —Ford translated the MVGP

into daily practice, into reality. And that is the real force behind Ford's remarkable turnaround. Can you imagine the cynicism that would have erupted had Ford published the MVGP but then not translated the rhetoric into reality? Labor would have been cynical.

Customers would have been cynical. Shareholders would have been cynical. And the whole turnaround probably would have failed.

Merck

In the late 1920s, George W. Merck formulated the backbone of Merck's vision. Building upon core values of integrity, contribution to society, responsibility to customers and employees, and the unequivocal pursuit of quality and excel ence, he envisioned Merck as a world-class company that bene ts humanity through innovative contributions to medicine—a company that makes superb pro ts not as the primary goal, but as a residual result of succeeding at that task. At the 1933 opening of the Merck Research Laboratory, he said:

We believe that research work carried on with patience and persistence wil bring to industry and commerce new life; and we have faith that in this new laboratory, with the tools we have supplied, science wil be advanced, knowledge increased, and human life win ever a greater freedom from su ering and

human life win ever a greater freedom from su ering and disease. . . . We pledge our every aid that this enterprise shal merit the faith we have in it. Let your light so shine—that those who seek the Truth, that those who toil that this world may be a bet er place to live in, that those who hold aloft that

torch of Science and Knowledge through these social and economic dark ages, shal take new courage and feel their hands supported,

[emphasis his]10

We're certainly impressed with George Merck's visionary pronouncement —especial y given that he spoke these words over sixty years ago, long before "vision statements" became popular.

But his words and sentiments alone, as inspiring and impressive as they are, do not—indeed, could not—make Merck a visionary company. The truly outstanding thing about Merck is how consistently it has aligned itself with the core ideology and the type of progress envisioned by George Merck.

For example, the company didn't just create a standard industrial R&D lab. Instead, it set the BHAG of creating a research capability so outstanding that it could "talk on equal terms with the universities and research institutes."11 In fact, Merck explicitly designed the research laboratories to have an academic atmosphere and appearance—to look so much like a col ege that it quickly became known as the "Merck Campus."12 Furthermore, instead of keeping its pure research behind locked doors, Merck encouraged its research scientists to publish in scienti c journals—a key move that at racted many a top scientist.13 It also encouraged its researchers to col aborate with scientists at academic and noncompeting industrial research laboratories outside of Merck—an unusual step that improved the quality of their published work.

The company recruited prominent academic scientists to serve on the board of directors14 and created a dual career track that al owed scientists to pass up promotions into management without nancial penalty.15 Merck even went so far as to list the scienti c publications of its researchers in recruiting materials, much as an

publications of its researchers in recruiting materials, much as an academic institution lists the publications of its faculty. As one scientist summed up:

Merck is like MIT or Harvard or any other academic institution with an outstanding reputation for research. You have to want to do your science

intensely.16

To further encourage scienti c exploration and experimentation, Merck gave research scientists “the greatest possible latitude and scope in pursuing their investigations, the utmost freedom to fol ow promising leads—no mat er how unrelated to . . practical returns.”17 Unlike most American corporations, Merck prohibited marketing input into the pure research process until products had clearly entered the development stage.18 As CEO P. Roy Vagelos put it:

We keep basic research exclusively in the hands of research. We keep marketing out of the way until products are being tested on humans. We don’t want concerns about “market potential” to get in the way of basic scienti c exploration and experimentation that can lead to big break-throughs.19

These and similar practices have remained essential y intact at Merck for six decades, even though many of them y in the face of conventional business doctrine. Along the way, Merck has added other practices that, although unconventional, make perfect sense at Merck. For instance, Merck explicitly rejected budgets as a planning or control tool in R&D. It creates new product project teams and explicitly does not give them a budget. Instead, team leaders (“champions”) must persuade people from a variety of disciplines to join the team and to commit their resources to the project. This process creates a survival-of-the- t est selection process where the best projects at ract resources and the weakest perish.20 Unlike its more diversi ed competitors, Merck adopted the unconventional

more diversi ed competitors, Merck adopted the unconventional strategy of being one of the least diversi ed pharmaceutical companies, placing al bets on its ability to innovate new, breakthrough drugs.21 Merck lives with the self-imposed requirement that new products must be signi cantly bet er than the competition, else they cannot be introduced to the market—a highly risky strategy that can produce long droughts if nothing good comes down the pipe.22

In fact, throughout its history, Merck has set BHAGs that—bold as they might be—were aligned perfectly with its ideology: Early 1930s: BHAG to

build a research capability so outstanding that it could “talk on equal terms with the universities and research institutes” (described earlier).23

Early 1950s: BHAG to transform itself into a ful y integrated pharmaceutical company in order to participate ful y in the dramatic changes in medicine—backed by a

“bet the company” acquisition of pharmaceutical giant Sharp & Dohme that gave Merck a wel -established distribution and marketing network.24

Late 1970s: BHAG “to establish Merck as the pre-eminent drug maker worldwide in the 1980s.”25

Late 1980s: BHAG to become the first drug maker with advanced research in every disease category.26

Early 1990s: BHAG to “redefine the pharmaceutical paradigm”

with a $6 bil ion acquisition of Medco to create more of a direct link with end customers.27

Merck also has a long track record of being wel aligned with its ideology of corporate responsibility. A lot of companies talk about corporate social responsibility, equal opportunity, and other such lofty ideals. But how many of these companies were one of the rst to donate to the United Negro Col ege Fund, as Merck did in

to donate to the United Negro Col ege Fund, as Merck did in 1944?28 How many were the rst in their industry to establish an O ce of Minority A airs, as Merck did in the 1960s?29 How many companies in the 1970s required that al senior executives include a rmative action goals in their annual objectives and tied them to bonuses, stock options, ratings, and merit increases?30 How many were recognized by the National Organization for Women for

“vigorous programs to recruit, develop, and promote women and minorities”? How many were selected by Black Enterprise and Working Mother as one of the best places for women and minorities to work in

America?31 How many large industrial companies have a woman as a chief nancial o cer?32 How many companies would have brought streptomycin to Japan—at no profit

—to eliminate a serious outbreak of tuberculosis after the end of World War I ?33 How many companies would have made the decision to develop Mectizan to cure river blindness and to give it away free?34 How many have set an explicit environmental BHAG, such as “to reduce our release of toxins into the environment by 90% by 1995”?35 Indeed, to a far greater degree than most companies, Merck has consistently translated its social conscience into practice.

Merck doesn’t just envision progress and excel ence in its employees. It commits to progress and excel ence. Get ing a job at Merck is like applying to graduate school—rigorous and thorough.

Merck often requires candidates to deliver multiple writ en recommendations about their quali cations for working at Merck—

just like applying to a top- ight educational institution.36 Merck invests heavily in employee recruiting, development, and retention.

It rates managers on their success at recruiting and retaining top talent. By the 1980s, Merck had one of the lowest turnover rates in industry (5 percent versus the U.S. average of 20 percent).37

Final y, Merck consistently reinforces its core ideology, decade after decade, day after day—in shareholder reports, in recruiting materials, in employee manuals, in self-published books, in historical videos, in executive speeches, in orientation seminars, in

historical videos, in executive speeches, in orientation seminars, in articles for outside magazines and journals, and in a myriad of internal magazines and newslet ers. When we asked Merck to send us any documents that might describe its values and purpose, Merck provided us with no fewer than eighty- ve distinct items, some dating back to the turn of the century. In 1991, the company put on an extensive and elaborate centennial celebration, with publication of books, articles, speeches, videos, historical

analyses—al with tremendous emphasis on the company's heritage and values. It is simply impossible to work at Merck and not be immersed in the ideology; it pervades everything, and has done so for nearly a century. As Je rey L. Sturchio, Merck's director of science and technology policy, summed up:

I used to work at another major American corporation before coming to Merck. The basic di erence I see between the two companies is rhetoric versus reality. The other company touted values and visions and al the rest, but there was a big di erence between rhetoric and reality. At Merck, there is no dif erence.38

Hewlett-Packard

Bil Hewlet and Dave Packard envisioned HP as a role-model corporation, known for progressive personnel practices, innovative and entrepreneurial culture, and an unbroken string of products that make a technical contribution. "Our main task," wrote Dave Packard, "is to design, develop, and manufacture the nest

[electronic equipment] for the advancement of science and the welfare of humanity. We intend to devote ourselves to that task."39

HP director Fred Terman used the lofty phrase "Model Social Institution" to describe the company's aspirations.40 Later, Hewlet boiled down HP's guiding principles into what he cal ed the "Four Musts": The company must at ain pro table growth; the company must make its pro t through technological contribution; the company must recognize and respect the personal worth of

company must recognize and respect the personal worth of employees and al ow them to share in the success of the company; and the company must operate as a responsible citizen of the general community.41

Al ne and good, but Hewlet and Packard's vision would have been essential y useless if not translated into practice. Like Merck, HP stands out not as much for its lofty values and aspirations, but for the comprehensive and consistent way it aligned with them.

For example, HP has a long history of showing respect for employees in a multitude of tangible ways. In the 1940s, it introduced a “production bonus” (essential y a pro t-sharing plan) that paid the same percentages to the janitor as to the CEO, and created a catastrophic medical insurance plan for al employees—

actions virtual y unheard of at that time, especial y in a smal company.42 When the company went public in the 1950s, al employees at al levels with six months of tenure received an automatic stock grant and became eligible for a stock option program.43 Soon thereafter, HP instituted an employee stock purchase program, with a 25 percent subsidy from the company.44

To reduce the chance of layo s, HP passed up large government contract opportunities—pro table as they might be—if they would lead to “hire-and-re” tactics.45 It required divisions to hire HP

insiders rst before looking to the outside, providing further secure employment across the entire company (not to mention keeping the culture tight).46 When facing corporate-wide downturns, HP

general y asked al employees to take every other Friday o and reduce their pay by 10 percent, rather than imposing a 10 percent layof .47 HP was one of the rst American companies to introduce extime opportunities for employees at al levels and to conduct extensive employee surveys to gauge and track employee concerns.48 It was also one of the rst American companies to introduce an open-door policy in which employees could bring grievances al the way to the top without retribution.49 To promote communication and informality and to deemphasize hierarchy, HP

created a wide-open oor plan; no manager at any level would be

created a wide-open oor plan; no manager at any level would be al owed to have a private o ce with a door—a very unusual practice in the 1950s. Not surprisingly, HP has remained nonunionized, as one HPer described:

Several at empts at unionization were made but failed dismal y.

What union could make headway in a company whose employees felt an integral part of management, and who invited the pickets in out of the cold to share hot co ee and doughnuts at cof ee breaks?50

Similarly, HP took many steps to reinforce the importance of technological contribution and to promote an entrepreneurial environment. Beginning in the 1950s, HP sought to hire only top 10

percent graduating seniors from respected engineering schools, rather than hiring more experienced but less talented engineers from industry.51 (Thirty years later, HP was stil viewed at top engineering schools as the elite job o er.)52 Like 3M, HP pursued a strategy of producing new and bet er products each year as its primary source of growth, rather than seeking to ride the product life cycle and maximize unit volume of older products. In 1963, more than 50 percent of HP's sales came from products introduced in the previous five years; by 1990, this had improved to 50 percent of sales from products introduced in the previous three years.53 And they couldn't be just any new products; me-too or copycat products were always weeded out, no mat er what the market potential. "If you had the opportunity to listen in on one of our management sessions," explained Bil Hewlet , "you would nd that many approaches are rejected because people feel there is not enough of a technical contribution to justify bringing a particular product to market."54 This tough, self-imposed standard led HP to bypass high-volume markets—such as IBM-compatible personal computers—

until it could gure out a way to enter with a technological contribution. What fol ows is an actual conversation between a seasoned lab manager and a young product manager at HP in

seasoned lab manager and a young product manager at HP in 1984:55

"We've got to introduce an IBM-compatible personal computer now. That's where the market is going. That's PRODUCT MANAGER:

where the volume is. That's what customers primarily want."

"But where's the technological contribution? Until we figure out a way to make an IBM-compatible personal LAB MANAGER:

computer with a clear technical advantage, then we just can’t do it—no mat er how big the market.”

“But what if that’s not what customers want? What if they just want to run their software and don’t real y care PRODUCT MANAGER:

about technical contribution? And what if the market window wil close unless we act now?”

“Then we shouldn’t be in that business. That’s not who we are. We simply shouldn’t be in markets that don’t LAB MANAGER:

value technical contribution. That’s just not what the Hewlet -Packard Company is al about.”

The lab manager won hands down, as they almost always do at HP. “As important as they are,” said Bil Hewlet , “marketing people must play a secondary role in the question of product definition.”56 For years, HP shunned market input in favor of the

“Next Bench Syndrome”—a strategy of engineers solving their own technical problems as the primary means of identifying opportunities for technical and market contribution.57 In the 1950s and 1960s, HP titled its product lists “Contribution to the Test Equipment Field” [emphasis ours]—an interesting and revealing detail.58 Corporate-wide hero recognition programs were general y geared toward the engineers who invented new gadgets, not those who sold them. Career advancements also re ected the

who sold them. Career advancements also re ected the technological emphasis; over 90 percent of division general managers at HP hold technical degrees.59

To promote an entrepreneurial culture, HP early on adopted a management method of “provide a wel -de ned objective, give the person as much freedom as possible in working toward that objective, and nal y, provide motivation by seeing that the contribution of the individual is recognized throughout the organization.”60 Later, as the company rapidly expanded in the 1950s, it extended this management method into a decentralized

structure of highly autonomous divisions set up as lit le businesses with self-control over their own R&D, production, and marketing strategies and wide discretion in operating decisions (within the bounds, of course, of the HP ideology). When entering a new business, HP would usual y create a new division and turn it loose to figure out how best to enter the market. According to Hewlet : We simply said, “Here’s the eld we want to enter; now you de ne the particular item you can build.” The presumption was that they would design it on the best technology available.61

To further reinforce entrepreneurship, HP dispersed its divisions into several states, rather than locating them al near headquarters.

The company then al ocated R&D funds to reward innovation—the most innovative divisions get ing the most resources. (Even though HP has a central laboratory cal ed “HP Labs,” it al ocated the vast majority of R&D funds to its divisions.)62 Facilities that began as manufacturing plants could only at ain ful divisional status by creating (with boot-strapped funds) an innovative new product and taking it to market.63 And, unlike most companies, HP encouraged its international divisions to develop R&D capabilities, rather than merely remaining sales and distribution centers.64

Equal y important as what HP did do is what it did not do, regardless of prevailing management theories or fads. Recal , for instance, how HP shunned corporate debt (even though such a

instance, how HP shunned corporate debt (even though such a practice is “irrational”) because Hewlet and Packard believed debt would erode entrepreneurial discipline. Unlike many high-technology companies, HP avoided outside investors like venture capitalists because “they can push companies to grow too fast, and if you grow too fast, you can lose your values.”65 In stark contrast to most corporations, HP forbade the personnel department from get ing involved in personnel problems:

Taking care of his or her people is the most important part of every management job. . . . In no case is the personnel department expected to handle the manager’s personnel problems—he or she must accept and handle the personnel responsibility to be a good manager.66

A particularly revealing example of HP fol owing its own vision and not fal ing prey to management fads and fashions of the day came in the 1970s, when the “learning-curve/market-share” theory of corporate strategy swept American business. Touted by prestigious management consulting rms and taught at top- ight business schools, it became a pervasive management tool adopted by thousands of executives across the corporate landscape.

Operating under the theory that greater market share leads to lower costs and eventual y greater pro ts, managers at a wide range of companies began cut ing prices in order to gain market share. For roughly a decade, this theory dominated strategic thinking. But not at HP, which explicitly rejected the learning curve theory and held itself to a di erent standard: “If a product isn’t good enough to make an excel ent gross margin in the rst year, then it’s not a product with a signi cant technical advantage and the Hewlet -

Packard Company shouldn’t be making it, period.”67 Packard explained to his managers in 1974: “If I hear anybody talking about how big their share of the market is or what they’re trying to do to increase their share of the market, I’m going to personal y see that a black mark gets put in their personnel folder.”68

black mark gets put in their personnel folder.”

Final y, HP—like Ford and Merck—has gone to great lengths to continual y immerse employees in the tenets of what became known as the “HP Way.” Hewlet and Packard took al their managers o -site in the 1950s to the “Sonoma Conferences,” where they penned HP’s ideology and ambitions into a document

“somewhat similar to the U.S. Constitution—a document expressing basic ideals subject to current interpretation and to amendment.”69

Soon thereafter, HP began a strict promote-from-within policy, implemented extensive interviewing processes that emphasize

“adaptability and t” to the HP Way, and created a program to indoctrinate rst-line supervisors. “We recognized very early that it was important to have your rst line managers indoctrinated or oriented toward the philosophy

because . . . they’re the company to most people,” explained Dave Packard.70

We found no less than a hundred separate documented incidents of HP managers talking explicitly about HP’s values and purpose—

in internal talks, in external speeches, in writ en materials, in individual conversations. They simply talked and acted on them constantly for decades. We also encountered dozens of “Bil and Dave stories” recounted over the years to convey the essence of the HP Way. For instance, when Bil Hewlet found a storeroom chain-locked on a weekend, he chopped and shredded the chain with a pair of bolt cut ers and left it on the manager’s desk with a terse note that locked storerooms do not t with HP’s notion of respect for its employees—or so the story goes.71 True or not, the stories il ustrate how HP’s management worked continual y to make the HP Way a genuine way of life. Barney Oliver, longtime general manager of HP Laboratories, summed up HP during its rise to prominence:

When I first joined HP in 1952 it was immediately apparent that nearly al of its 400 employees were enthusiastic about, loyal to, and proud of their company to an unusual degree. . . . As one employee put it, “I have the impression that Bil and Dave are working for me, rather than the other way around.” What

working for me, rather than the other way around.” What surprises visitors today is that this same spirit has survived HP’s growth. It is unusual to nd such spirit in a company with over 17,000 employees, but it is not surprising. For in a deeper sense, what was going on in those early days was a process of education in management. . . . Most of the early employees became extensions of Bil and Dave’s personalities and philosophies, and put these philosophies and techniques to good use when they took their places as line leaders, supervisors or division heads. . . . We al believe in [these philosophies] and practice them. They are part of our way of life.72

LESSONS OF ALIGNMENT FOR CEOS, MANAGERS, AND ENTREPRENEURS

We applaud if you go o -site to discuss your corporate ideology, like Hewlet and Packard did in the 1950s. We encourage you to set lofty ambitions for your company, like George Merck did in the 1930s. We hope you wil want to put to paper the guiding vision of your company, like Ford did. But never forget that such steps do not in themselves make a visionary company. You never at ain nal alignment. You never reach nal success. You have to work at it constantly. Here are some guideposts.

1. Paint the Whole Picture

You're probably feeling a bit overwhelmed by al the comprehensive detail about Ford, Merck, and HP. And that in itself is precisely the point!

VISIONARY companies do not rely on any one program, strategy, tactic, mechanism, cultural norm, symbolic gesture, or CEO speech to preserve the core and stimulate progress.

It's the whole bal of wax that counts.

It's the remarkable comprehensiveness and consistency over time that counts. It's the nearly overwhelming set of signals and actions—

signals to continual y reinforce the core ideology and to stimulate progress —that lead to a visionary company. Taken in isolation, each fact about Ford, Merck, and HP would be trivial, and certainly wouldn't account for their visionary status. But in the context of hundreds of other facts, they add up to a consistent overal picture.

It would be a mistake to conclude that you could implement any single chapter of this book in isolation and have a visionary company. Core ideology alone cannot do it. The drive for progress alone cannot do it. A BHAG alone wil not do it. Evolution through autonomy and entrepreneurship by itself wil not do it. Homegrown management alone does not make a visionary company, nor a cult-like culture, nor even living the concept that good enough never is.

A visionary company is like a great work of art. Think of Michelangelo's scenes from Genesis on the ceiling of the Sistine Chapel or his statue of

David. Think of a great and enduring novel, l i k e Huckleberry Finn or Crime and Punishment. Think of Beethoven's Ninth Symphony or Shakespeare's Henry V. Think of a beautiful y designed building, like the masterpieces of Frank Lloyd Wright or Ludwig Mies van der Rohe. You can't point to any one single item that makes the whole thing work; it's the entire work—

al the pieces working together to create an overal e ect—that leads to enduring greatness. And it's not just the big pieces, but also the it y-bit y details—the turn of phrase, the change in pace at just the right moment, the perfect o -center placement of a window, a subtle expression sculpted into the eyes. As the great architect Mies van der Rohe put it, "God is in the details."

2. Sweat the Smal Stuff

People don't work day-to-day in the "big picture." They work in the nit y-grit y details of their company and its business. Not that the big picture is irrelevant, but it's the lit le things that make a big impression, that send powerful signals. Lit le things, like business cards for salespeople at Nordstrom to send the signal, "We want you to be a sales professional." Lit le things, like Wal-Mart giving employees at the lowest level complete departmental nancial reports to send the signal, "You are a partner in the company and we want you to run your department as your own lit le business."

Lit le things, like Motorola's chairman sit ing in for the quality improvement reports (which always topped the agenda) and then leaving for the nancial reports to send the signal, "Quality improvement is our crusade, not just pro ts." Lit le things, like al owing key divisions at Johnson & Johnson to put their own logos on their products—and leave o the J&J logo—to send the signal,

"We want you to operate with the psychology of autonomous, entrepreneurial business units." Lit le things, like Philip Morris sending employees home with a box of cigaret es along with their paycheck to send the signal "We're proud of our product, no mat er what the Surgeon General says."

Social cognition research shows that individuals pick up on al the signals in their work environment—big and smal —as cues for how they should behave. People notice lit le things. People remember stories not so much about grand heroics, but about lit le events like shredding the chain of a locked storeroom. People want to believe in their company's vision, but wil be ever watchful for the tiny inconsistencies that al ow them to say "Aha! See, there you go. I knew management was just blowing smoke. They don't real y believe their own rhetoric."

3. Cluster, Don't Shotgun

Visionary companies don't put in place any random set of mechanisms or processes. They put in place pieces that reinforce each other, clustered together to deliver a powerful combined

each other, clustered together to deliver a powerful combined punch. They search for synergy and linkages. Notice the clustering at Ford: statistical quality control methods reinforced by employee involvement programs reinforced by participative management training programs reinforced by promotion criteria based on participative management skil s. Notice the clustering at Merck: recruiting of top scientists reinforced by al owing them to publish reinforced by al owing them to col aborate with outside scientists reinforced by the "Merck Campus" reinforced by the dual career track. Notice how it would be impossible to work at HP and not get the message that managers had bet er treat their people wel or that divisions had bet er make pro ts by technical contribution.

Working at HP is like being in a sound room equipped with not one but ten speakers working to amplify each other and send the same consistent messages from the oor, the ceiling, to the right, to the left, front, back, and sideways.

4. Swim in Your Own Current, Even if You Swim Against the Tide

Recal how Merck and HP took steps that ew in the face of conventional business practices in order to remain true to themselves. Alignment means being guided rst and foremost by one's own internal compass, not the standards, practices, conventions, forces, trends, fads, fashions, and

buzzwords of the outer world. Not that you should ignore reality—quite the contrary

—but your company's own self-de ned ideology and ambitions should guide al of its dealings with reality. If done right, you wil likely astonish competitors, journalists, business professors, and others with idiosyncratic practices and strategies that, however unusual, make perfect sense for your company.

Johnson & Johnson, for example, made the decision to place its new headquarters right smack in the middle of blighted New Brunswick, New Jersey, in the 1970s not because it made the best business sense (it didn't), but because it made the most sense in the context of the J&J Credo. Boeing held itself to aircraft design safety

context of the J&J Credo. Boeing held itself to aircraft design safety standards that far exceeded its competitors' not because the market demanded it, but because Boeing's ideology demanded it. 3M

rejected the conventional business wisdom that a smal growing company should concentrate on one line of business; a focus strategy simply didn't t with the type of innovative company 3Mers wanted to build. The learning-curve/market-share model may have become the latest rage among corporate executives in the 1970s, but it just didn't make sense for HP.

The point here is not that the visionary companies pursue "good"

practices and other companies pursue "bad" practices. "Good or bad" puts the wrong frame on it. What might be "good" at HP

might be "bad" at Merck or 3M or Marriot or P&G.

THE real question to ask is not "Is this practice good?" but "Is this practice appropriate for us—does it t with our ideology and ambitions?"

5. Obliterate Misalignments

If you look around your company right now, you can probably put your nger on at least a dozen speci c items misaligned with its core ideology or that impede progress—“inappropriate” practices that have somehow crept through the woodwork. Does your incentive system reward behaviors inconsistent with your core values? Does the organization’s structure get in the way of progress?

Do goals and strategies drive the company away from its basic purpose? Do corporate policies inhibit change and improvement?

Does the of ice and building layout stifle progress?

At aining alignment is not just a process of adding new things; it is also a never-ending process of identifying and doggedly correcting misalignments that push a company away from its core

correcting misalignments that push a company away from its core ideology or impede progress. If the building layout impedes progress, change the building layout or move. If the strategy is misaligned with the core, change the strategy. If the organization structure inhibits progress, change the organization structure. If the incentive system rewards behavior inconsistent with the core, change the incentive system. Keep in mind that the only sacred cow in a visionary company is its core ideology. Anything else can be changed or eliminated.

6. Keep the Universal Requirements While Inventing New Methods

A company must have a core ideology to become a visionary company. It must also have an unrelenting drive for progress. And nal y, it must be wel designed as an organization to preserve the core and stimulate progress, with al the key pieces working in alignment. These are universal requirements for visionary companies. They distinguished visionary companies a hundred years ago. They distinguish visionary companies today. And they wil distinguish visionary companies in the twenty- rst century. If we were to rewrite this book in the year 2095, we would nd these same basic elements to distinguish the most enduring and successful corporations from the rest of the pack.

However, the speci c methods visionary companies use to preserve the core and stimulate progress wil undoubtedly change and improve. BHAGs, cult-like cultures, evolution through experimentation, homegrown management, and continuous self-improvement—these are al proven methods of preserving the core and stimulating progress. But they are not the only e ective methods that can be invented. Companies wil invent new methods to complement these time-tested ones. The visionary companies of tomorrow are already out there today experimenting with new and bet er methods. They're undoubtedly already doing things that their competitors might nd odd or unusual, but that wil someday become common practice.

become common practice.

And that's exactly what you should be doing in the corporations you work with—that is, if you want them to enter the elite league of visionary companies. It doesn't mat er whether you're an entrepreneur, manager, CEO, board member, or consultant. You should be working to implement as many methods as you can think of to preserve a cherished core ideology that guides and inspires people at al levels. And you should be working to invent mechanisms that create dissatisfaction with the status quo and stimulate change, improvement, innovation, and renewal—

mechanisms, in short, that infect people with the spirit of progress.

If you can think of new methods to preserve the core that we haven't writ en about in this book, then by al means put them in place. If you can invent powerful new mechanisms to stimulate progress, then give them a try. Use the proven methods and create new methods. Do both.

THIS IS NOT THE END

We've done our best to discover and teach here the fundamental underpinnings of truly outstanding companies that have stood the test of time. We've given you an immense amount of detail and evidence in this book, and we expect that few readers wil remember every lit le item in these pages. But as you walk away from reading this book, we hope you wil take away four key concepts to guide your thinking for the rest of your

managerial career, and to pass on to others. These concepts are: 1. Be a clock builder—an architect—not a time tel er.

2. Embrace the “Genius of the AND.”

3. Preserve the core/stimulate progress.

4. Seek consistent alignment.

We feel a bit like Dorothy in the Wizard of Oz, who after her long journey in search of the wizard, pul s back the curtain and discovers

journey in search of the wizard, pul s back the curtain and discovers that the wizard isn’t a wizard after al . He’s just a normal human being. Like Dorothy, we discovered that those who build visionary companies are not necessarily more bril iant, more charismatic, more creative, more complex thinkers, more adept at coming up with great ideas—in short, more wizardlike—than the rest of us.

What they’ve done is within the conceptual grasp of every manager, CEO, and entrepreneur in the world. The builders of visionary companies tend to be simple—some might even say simplistic—in their approaches to business. Yet simple does not mean easy.

We think this has profound implications for what you take away from this book. It means that no mat er who you are, you can be a major contributor in building a visionary company. You don’t have to wait for the great charismatic visionary to descend from the mount. You don’t have to hope for the lightning bolt of creative inspiration to strike with the “great idea.” You don’t have to accept the debilitating perspective of “Wel , let’s face it. Our CEO just isn’t a charismatic visionary leader. It’s hopeless.” You don’t have to buy into the belief that building visionary companies is something mysterious that only other people do.

It also means that life wil probably be more di cult for you from here on. It means helping those around you to understand the lessons of this book. It means accepting the frightening truth that you are probably as quali ed as anyone else to help your organization become visionary. And it means

recognizing that you can begin right now—today—to apply the lessons of this book.

Final y, and perhaps most important of al , it means working with a deep and abiding respect for the corporation as an important social institution in its own right—an institution that requires the care and at ention we give to our great universities or systems of government. For it is through the power of human organization—of individuals working together in common cause—that the bulk of the world's best work gets done.

So this is not the end. Nor even the beginning of the end. But it is, we hope, the end of the beginning—the beginning of the chal enging and arduous, but eminently doable task of building a

chal enging and arduous, but eminently doable task of building a visionary company.

Chapter 11

Chapter 11

Building the Vision*

“We shal not cease from exploration

And the end of al our exploring

Wil be to arrive where we started

And know the place for the first time.”

T.S. ELIOT, FOUR QUARTETS

Vision has become one of the most overused—and least understood—words in the language. The word vision conjures up al kinds of images. We think of outstanding achievement. We think of deeply held values that bond people in a society together. We think of audacious, exhilarating goals that galvanize people. We think of something eternal—the underlying reasons for an organization’s existence. We think of something that reaches inside us and pul s out our best e orts. We think of the dreams of what we want to be. And therein lies a problem. Al of us know vision is important, but what exactly is it?

In this new chapter for the paperback edition, we present a

In this new chapter for the paperback edition, we present a conceptual framework that de nes vision, adds clarity and rigor to the vague and fuzzy set of concepts swirling around that trendy term, and gives practical guidance for articulating a coherent vision within an organization. It is a prescriptive framework rooted in the six-year research project on visionary companies that led to our book and re ned and tested by our ongoing work with hard-nosed executives from organizations of al types and sizes from around the world. In the fol owing pages we thoroughly describe this framework. Some of the key ideas that compose the framework overlap with some of our research ndings from earlier chapters.

Therefore parts of this chapter might seem a bit redundant, but we want this to be e ective as a stand-alone chapter. Additional y, this chapter provides substantial practical guidance about how to apply the ideas, along with il ustrative examples drawn not only from the visionary companies but others we've worked with or studied beyond our original research for the book.

Again, to reiterate the key nding from our Built to Last research, the fundamental distinguishing characteristic of the most enduring and successful corporations is that they preserve a cherished core ideology while simultaneously stimulating progress and change in everything that is not part of their core ideology. Put another way, they distinguish their timeless core values and enduring core purpose (which should never change) from their operating practices and business strategies (which should be changing constantly in response to a changing world). In truly great companies, change is a constant, but not the only constant. They understand the di erence between what should never change and what should be open for change, between what is truly sacred and what is not. And by being clear about what should never change, they are bet er able to stimulate change and progress in everything else. Articulating a vision using the framework presented in this chapter provides the guiding context for implementing the "preserve the core/stimulate progress" concept in an organization.

THE VISION FRAMEWORK

Figure 11.A Articulating a Vision

A wel -conceived vision consists of two major components—core ideology and an envisioned future. Notice the direct paral el to the fundamental “preserve the core/stimulate progress” dynamic. A good vision builds on the interplay between these two complementary yin-and-yang forces: it de nes “what we stand for and why we exist” that does not change (the core ideology) and sets forth “what we aspire to become, to achieve, to create” that wil require signi cant change and progress to at ain (the envisioned future).

To pursue the vision means to create organizational and strategic alignment to preserve the core ideology and stimulate progress toward the envisioned future. Alignment brings the vision to life, translating it from good intentions to concrete reality.

CORE IDEOLOGY

Core ideology, as we described in Chapter 3, de nes the enduring

Core ideology, as we described in Chapter 3, de nes the enduring character of an organization—its self-identity that remains consistent through time and transcends product/market life cycles, technological breakthroughs, management fads, and individual leaders. In fact, the most lasting and signi cant contribution of the architects of visionary companies is the core ideology. As Bil Hewlet said about his long-time friend and business partner David Packard upon Packard’s death in 1996, “As far as the company is concerned, the greatest thing he left behind him was a code of ethics known as the HP Way.1 HP’s core ideology, which has guided the company since its inception in 1938, includes a deep respect for the individual as a moral tenet, a dedication to a ordable quality and reliability, a commitment to community responsibility (Packard bequeathed his $4.3 bil ion of HP stock to a charitable foundation), and a view that the company exists to make technical contributions for the advancement and welfare of humanity. Company builders like David Packard, Masaru Ibuka of Sony, George Merck of Merck, Wil iam McKnight of 3M, and Paul Galvin of Motorola understood that it is far more important to know who you are than where you are going, for where you are going wil certainly change as the world about you changes. Leaders die, products become obsolete, markets change, new technologies emerge, management fads come and go; but core

ideology in a great company endures as a source of guidance and inspiration.

Core ideology provides the bonding glue that holds an organization together as it grows, decentralizes, diversi es, expands global y, and at ains diversity within. Think of core ideology as analogous to the principles of Judaism that held the Jewish people together for centuries without a homeland, even as they spread in the Diaspora. Or think of it as like the truths held to be "self-evident" in the United States Declaration of Independence, or the enduring ideals and principles of the scienti c community that bond scientists from every nationality together with the common purpose of advancing human knowledge.

Any e ective vision must embody the core ideology of the organization, which in turn consists of two distinct sub-components:

organization, which in turn consists of two distinct sub-components: core values and core purpose.

Core Values

Core values are the organization's essential and enduring tenets—a smal set of timeless guiding principles that require no external justi cation; they have intrinsic value and importance to those inside the organization. Disney's core values of imagination and wholesomeness stem not from a market requirement, but from an inner belief that imagination and wholesomeness should be nurtured for their own sake. Wil iam Procter and James Gamble didn't instil product excel ence as a mere "strategy" for success, but as an almost religious tenet held for over fteen decades by P&G

people. Subservience to the customer as a way of life at Nordstrom traces its roots back to 1901—eight decades before customer service programs became stylish in business. Bil Hewlet and David Packard held respect for the individual rst and foremost as a deep personal belief; they didn't read it in a book somewhere or hear it from a management guru. Ralph Larson, CEO of Johnson &

Johnson, put it this way: “The core values embodied in our Credo might be a competitive advantage, but that is not why we have them. We have them because they de ne for us what we stand for, and we would hold them even if they became a competitive disadvantage in certain situations.”2

The key point is that an enduring great company decides for itself what values it holds to be core, largely independent of the current environment, competitive requirements, or management fads.

Clearly, then, there is no universal y “right” set of core values. A company need not have customer service as a core value (Sony doesn’t), or respect for the individual (Disney doesn’t), or quality (Wal-Mart doesn’t), or market responsiveness (HP doesn’t), or teamwork (Nordstrom doesn’t). (Of course, these companies might have practices or strategies based around these dimensions.) Again, to emphasize a fundamental nding of our research, the key is not what core values an organization has, but that it has core values.

what core values an organization has, but that it has core values.

In identifying the core values of your own organization, push with relentless self-honesty for truly core values. If you articulate more than ve or six, there’s a good chance you’re not get ing down to the essentials, and probably confusing core values (which do not change) with operating practices, business strategies, and cultural norms (which should be open for change). Remember, these values must stand the test of time. After you’ve drafted a preliminary list of the core values, ask about each one: “If the circumstances changed and penalized us for holding this core value, would we stil keep it?” If you can’t honestly answer yes, then it’s not core and should be dropped.

For example, a high technology company we worked with wondered whether it should put “quality” on its list of core values.

The CEO asked: “Suppose in ten years quality doesn’t make a hoot of di erence in our markets. Suppose the only thing that mat ers is sheer speed and horsepower, but not quality. Would we stil want to put quality on our

list of core values?” The members of the management team looked around at each other and nal y said,

“To be honest, no.” Quality stayed of the list as a core value.

Quality stayed in the current strategy of the company—and quality improvement programs remained in place as a mechanism for stimulating progress—but it did not make the list of core values.

Remember, strategies change as market conditions change, but core values remain intact in a visionary company. This same group of executives then wrestled with whether it should put “leading-edge innovation” on its list of core values. The CEO asked the same question: “Would we keep it on the list as a core value, no mat er how the world around us changes?” This time, the management team gave a resounding, “Yes! We always want to do leading-edge innovation. That’s who we are. It’s real y important to us, and always wil be. No mat er what. And if our current markets don’t value it, we wil find markets that value it.” Leading-edge innovation went on the list of core values, and wil stay there forever. A company should not change its core values in response to market changes; rather, it should change markets —if necessary—in

market changes; rather, it should change markets—if necessary—in order to remain true to its core values.

Who should be involved in articulating the core values varies depending on the size, age, and geographic dispersion of the company, but in many situations we like to suggest a “Mars Group.”

It works like this: Imagine you’ve been asked to recreate the very best at ributes of your organization on another planet, but you only have seats on the rocket ship for ve to seven people. Who would you send? They are the people who likely have a gut-level understanding of your core values, have the highest level of credibility with their peers, and the highest level of competence.

We’l often ask a group of people brought together to work on core values to nominate a Mars Group of ve to seven individuals.

Invariably, they end up selecting a powerful, credible group that does a super job of articulating the core values precisely because they are exemplars of the core values—a representative slice of the company's "genetic code." (The "Mars Group" can also be used ef ectively to articulate core purpose, described below.) We've never encountered an organization, even a global organization composed of people from widely diverse cultures, that could not identify a set of shared core values. The key is to work from the individual to the organization. Those involved in articulating the core values should wrestle with such questions as: What core values do you personal y bring to your work—core values you hold to be so fundamental that you would keep them regardless of whether they are rewarded? What would you say if asked to describe to your children and/or other loved ones the core values you stand for in your work, values that you hope they would stand for when they become working adults? If you awoke tomorrow morning with enough money to retire for the rest of your life, would you continue to live according to these core values? Can you envision these core values being equal y valid for you 100 years from now as they are today? Would you want to hold these core values, even if at some point one or more of them became a competitive disadvantage? If you were to start a new organization tomorrow in a di erent line of work, what core values would you

tomorrow in a di erent line of work, what core values would you build into the new organization regardless of its industry? The last three questions are particularly important, as they make the crucial distinction between enduring core values that should not change and practices and strategies that should be changing al the time.

Core Purpose

Core purpose, the second component of core ideology, is the organization's fundamental reason for being. In our hardcover edition of Built to Last, we did not give enough at ention to purpose as distinct from core values and we under-emphasized its importance. Pushed to choose between core purpose and core values, we would likely choose core purpose as the more important of the two for guiding and inspiring an organization. It is also more dif icult to identify than core values.

An e ective purpose re ects the importance people at ach to the company's work—it taps their idealistic motivations—rather than just describing the organization's output or target customers. It captures the soul of the organization. (See Table 11.1 for examples of purpose.) Purpose gets at the deeper reasons for an organization's existence beyond just making money, as il ustrated by a 1960 speech by David Packard, wherein he said: "I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being."

Purpose (which should last at least 100 years) should not be confused with speci c goals or business strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot ful l a purpose; it is like a guiding star on the horizon—forever pursued, but never reached.

Yet while purpose itself does not change, it does inspire change.

The very fact that purpose can never be ful y realized means that an organization can never stop stimulating change and progress in order to live more ful y to its purpose.

Table 11.1

Examples of Core Purpose

3M:

To solve unsolved problems innovatively

Cargil :

To improve the standard of living around the world To strengthen the social fabric by continual y democratizing Fannie Mae:

home ownership

To make technical contributions for the advancement and welfare Hewlet - Packard: of humanity

Israel:

To provide a secure place on Earth for the Jewish people Lost Arrow

To be a role model and tool for social change Corporation:

To provide a place for people to flourish and to enhance the Pacific Theatres: community

Mary Kay:

To give unlimited opportunity to women

McKinsey:

To help leading corporations and governments be more successful Merck:

To preserve and improve human life

To experience the emotion of competition, winning, and crushing Nike:

competitors

To experience the joy of advancing and applying technology for Sony:

the benefit of the public

To help people with mental impairments realize their ful Telecare:

potential

To give ordinary folk the chance to buy the same things as rich Wal-Mart:

people

Walt Disney:

To make people happy

In identifying purpose, some companies make the mistake of

In identifying purpose, some companies make the mistake of simply describing their current product lines or customer segments.

We do not consider the fol owing to be an e ective purpose: “We exist to ful l our government charter and participate in the secondary mortgage market by packaging mortgages into investment securities.” It is merely descriptive. A far more e ective statement of purpose would be that expressed by the executives at Fannie Mae: “To strengthen the social fabric by continual y democratizing home ownership.” The secondary mortgage market as we know it might not even exist in 100 years, but strengthening the social fabric by continual y democratizing home ownership can be an enduring purpose, no mat er how much the world changes.

Guided and inspired by this purpose, Fannie Mae launched in the early 1990s a series of bold initiatives, including a program to develop new systems for reducing mortgage underwriting costs by 40 percent in ve years, programs to eliminate discrimination in the lending process backed by $5 bil ion in underwriting experiments, and an audacious goal to provide $1 tril ion (with a

“t”) targeted at ten mil ion families that had traditional y been shut out of home ownership—minorities, immigrants, and low-income groups—by the year 2000.

Similarly, 3M doesn’t de ne its purpose in terms of adhesives and abrasives, but as the perpetual quest to solve unsolved problems innovatively—a purpose the leads 3M continual y into a vast array of new elds. McKinsey’s purpose is not to do management consulting, but to help corporations and governments be more successful, which might in 100 years involve methods other than consulting. HP doesn’t exist to make electronic test and measurement equipment, but to make technical contributions that somehow make people’s lives bet er—a purpose that has led the company far a eld from its origins in electronic instruments.

Imagine if Walt Disney had conceived of his company’s purpose as to make cartoons, rather than to make people happy; we probably wouldn’t have Disneyland, EPCOT Center, or the Anaheim Mighty Ducks hockey team!

A pharmaceutical company we worked with considered stating

A pharmaceutical company we worked with considered stating their purpose as “To make drugs for human therapy.” We asked:

“Would that purpose stil hold a hundred years from now?” One manager pointed out that the company might wel discover or invent new ways of improving human therapy besides traditional drugs. Another pointed out that the company would likely invent solutions for animal therapy sometime in the next few decades. A third executive pointed out that “Wel , I’m not here just to make stu for therapy. I’m here to make signi cant improvements in therapy—to leave a mark beyond what everyone else has done.

Otherwise, what’s the point?” Ultimately, the company captured its purpose as: “We exist to provide signi cant improvements in therapy.” This purpose can guide and inspire the company for the next hundred years.

One powerful method for get ing at purpose is the “Five Whys.”

Start with the descriptive statement, “We make X products” or “we deliver X services,” and then ask “why is that important?” ve times. After a few whys, you’l nd that you’re get ing down to the fundamental purpose of the organization. We used this method to deepen and enrich a purpose discussion in some work we did with a market research company. The executive team rst met for several hours and generated the fol owing statement of purpose for their organization: “To provide the best market research data available.” We then asked, “Why is it important to provide the best market research data available?” After some discussion, their answer re ected a deeper sense of this organization’s purpose: “To provide the best market-research data available so that our customers wil understand their markets bet er than they could otherwise.” A further discussion led the team to realize that their sense of self-worth comes not just from sel ing market-research data but in actual y making a contribution to their customers’ success.

This line of self-questioning eventual y led the company to identify its purpose as: “To contribute to our customers” success by helping them

understand their markets.” With this purpose in mind, the company now frames its product decisions not with the question

“Wil it sel ?” but with the question “Wil it make a contribution to

“Wil it sel ?” but with the question “Wil it make a contribution to our customers’ success?”

The “ ve whys” can help companies in “mundane” industries frame their work in a more meaningful way. For example, an asphalt and gravel company might begin with “We make gravel and asphalt products.” After a few whys it could conclude that asphalt and gravel is important because the quality of the underlying infrastructure plays a vital role in people’s safety and experience; driving on a pit ed road is annoying and dangerous; 747s cannot land safely on runways built with poor workmanship or inferior concrete; buildings with substandard materials weaken with time and crumble in earthquakes. From this introspection may emerge the purpose: “To make people’s lives bet er by improving the quality of man-made structures.” With a sense of purpose very much along these lines, Granite Rock Company of Watsonvil e, California, won the Malcolm Baldrige Quality Award—not an easy feat for a smal rock quarry and asphalt company—and has become one of the most progressive and exciting companies we’ve encountered in any industry.

You’l notice that none of the core purposes discussed in this chapter fal into the category “maximize shareholder wealth.” A key role of core purpose is to guide and inspire. “Maximize shareholder wealth” does not inspire people at al levels of an organization, and it provides precious lit le guidance. “Maximize shareholder wealth”

is the standard “o -the-shelf” purpose for those organizations that have not yet identi ed their true core purpose. It is a substitute ideology, and a weak substitute at that. Listen to people in great organizations talk about their achievements and you’l hear very lit le about earnings per share. Motorola people talk about impressive quality improvements and the e ects of the products they create on the world. HP people talk with pride about the technical contributions their products have made to the marketplace. Nordstrom people talk about heroic customer service and remarkable

individual performance by star sales people. When a Boeing engineer talks about launching an exciting and revolutionary 777 aircraft she doesn't say, "I put my heart and soul

revolutionary 777 aircraft she doesn't say, "I put my heart and soul into this project because it would add 37 cents to our earnings per share."

One way to get at the purpose that lies beyond just maximizing shareholder wealth is to play the "Random Corporate Serial Kil er"

game. It works like this: Suppose you could sel the company to an individual who would pay a price that everyone inside and outside the company agrees is more than fair, taking into account a very generous set of assumptions about the expected future cash ows of the company. Suppose further that the individual wil guarantee stable employment at the same pay scale for al employees after the purchase, but with no guarantee that those jobs wil be in the same industry. Final y, suppose the buyer plans to "kil " the company after the purchase—its products or services wil be discontinued, its operations wil be shut down, its brand-names wil be shelved forever, and so on. The company wil ut erly and completely cease to exist, wiped completely from the face of the Earth. Would you accept the o er? Why or why not? What would be lost if the company ceased to exist? Why is it important that the company continue to exist, now and in the future? We've found this exercise to be very powerful for helping hard-nosed, nancial y-focused executives to re ect on the deeper reasons for being of their organization.

Another approach is to ask each member of the Mars Group to answer the fol owing questions: If you woke up tomorrow morning with enough money in the bank that you would never need to work again, how could we frame the purpose of this organization such that you would want to continue working anyway? What deeper sense of purpose would motivate you to continue to dedicate your precious creative energies to this company's ef orts?

As we move into the 21st century, companies wil need to draw on the ful creative energy and talent of their people. But why should people give this level of commitment and devotion? As Peter Drucker has pointed out, the

best and most dedicated people are ultimately volunteers, for they have the opportunity to do something else with their lives. With an increasingly mobile society,

something else with their lives. With an increasingly mobile society, cynicism about corporate life, and an expanding entrepreneurial segment of the economy, companies need more than ever to have a clear understanding of their purpose in order to make work meaningful and thereby at ract, retain, and motivate outstanding people.

A Few Key Points on Core Ideology

A very important point: You do not “create” or “set” core ideology.

You discover core ideology. It is not derived by looking to the external environment; you get at it by looking inside. It has to be authentic. You can’t fake an ideology. Nor can you just

“intel ectualize” it. Do not ask, “What core values should we hold?”

Ask instead: “What core values do we actual y hold?” Core values and purpose must be passionately-held on a gut level or they are not core. Values you think the organization “ought” to have, but that you cannot honestly say that it does have, should not be mixed into the authentic core values. To do so creates cynicism throughout the organization (Who are they trying to kid? We al know that isn’t a core value around here!”). Such aspirations of what you’d like to become are more appropriate as part of your envisioned future (to be discussed later) or as part of your strategy, not part of the core ideology. (Authentic core values that once were a vibrant part of the organization but have become feeble over time can, however, be considered a legitimate part of the core ideology as long as you acknowledge to the organization that you have a lot of work to do to bring them back to life.)

The role of core ideology is to guide and inspire, not to di erentiate; it’s entirely possible that two companies can have the same core values or purpose. Many companies could have the purpose “to make technical contributions,” but few live it as passionately as HP. Many companies could

have the purpose “to preserve and improve human life,” but few hold it as deeply as Merck. Many companies could have the core value of “heroic customer service,” but few create an intense cult-like culture around

customer service,” but few create an intense cult-like culture around that value like Nordstrom does. Many companies could have the core value of “innovation,” but few create the powerful alignment mechanisms that stimulate innovation that we see at 3M. Again, it’s not the content of the ideology that makes a company visionary, it’s the authenticity, discipline, and consistency with which the ideology is lived—the degree of alignment —that di erentiates visionary companies from the rest of the pack. It’s not what you believe that sets you apart so much as that you believe in something, that you believe in it deeply, that you preserve it over time, and that you bring it to life with consistent alignment.

Core ideology need only be meaningful and inspirational to people inside the organization; it need not be exciting to al outsiders. It’s the people inside the organization that need to be compel ed by the core values and purpose to generate long-term commitment to the organization’s success. The e ect your core ideology has on people outside the organization is less important and should not be the determining factor in identifying the core ideology. Core ideology therefore plays an essential role in determining who’s inside and who’s outside the organization. A clear and wel -articulated ideology at racts people to the company whose personal values are compatible with the company’s core values and, conversely, repels those whose personal values are contradictory.

You cannot “instal ” new core values or purpose into people.

Core values and purpose are not something people “buy in” to.

People must already have a predisposition to holding them.

Executives often ask, “How do we get people to share our core ideology?” You don’t. You can’t! Instead, the task is to find people who already have a predisposition to share your core values and purpose, at ract and retain these people, and let those who aren’t disposed to share your core values go elsewhere. Indeed, the very process of articulating core ideology may result

in some individuals choosing to leave when it becomes clear that they are not personal y compatible with the organization's core—a positive cathartic outcome, not one to be avoided. Of course, you can

cathartic outcome, not one to be avoided. Of course, you can (indeed should) stil have diversity within the tight core ideology; just because people share the same core values or purpose does not mean that they al think or look the same.

Don't confuse core ideology with "statements" of the core ideology. A company can have a very strong core ideology without a formal statement. For example, Nike has not (to our knowledge) formal y articulated a statement of its core purpose. Yet, from our observations, Nike has a powerful core purpose that permeates the entire organization with a cult-like fervor: To experience the emotion of competition, winning, and crushing competitors. Nike has a campus that seems more like a shrine to the competitive spirit than a corporate o ce complex; giant photos of Nike heroes cover the wal s, bronze plaques of Nike athletes hang along the Nike "Walk of Fame," statues of Nike athletes stand along side the running track that rings the campus, and buildings are named after champions like Olympic marathon champion Joan Benoit, basketbal superstar Michael Jordan, and tennis player John McEnroe. Nike people who do not feel stimulated by the competitive spirit and the urge to "be ferocious" simply don't last long in the culture. Even the company's name (Nike is the Greek goddess of victory) re ects a sense of competition. Thus, although Nike has not formal y articulated its purpose, it clearly has a strong one.

Identifying core values and purpose is therefore not a wordsmithing exercise. An organization wil generate a variety of statements over time to describe the core ideology. In HP's archives, we found more than half a dozen distinct versions of the "HP Way"

drafted by David Packard over the years 1956 to 1972; al stated the same principles, but the words used varied depending upon the era and circumstances. Similarly, Sony's core ideology has been stated many di erent ways over its history. At the founding of the company, Masaru Ibuka described two key elements of Sony's ideology: "We shal welcome technical di culties and focus on highly sophisticated technical products that

have great usefulness for society regardless of the quantity involved; we shal place our

for society regardless of the quantity involved; we shal place our main emphasis on ability, performance, and personal character so that each individual can show the best in ability and skil .” Four decades later, this same ideology appeared in the “Sony Pioneer Spirit”: “Sony is a pioneer and never intends to fol ow others.

Through progress, Sony wants to serve the whole world. It shal be always a seeker of the unknown. . . . Sony has a principle of respecting and encouraging one’s ability. . . and always tries to bring out the best in a person. This is the vital force of Sony.”3

Same core values; dif erent words.

You should therefore focus on get ing the content right—on capturing the essence of the core values and purpose—not on wordsmithing the perfect statement to be etched in stone. The point is not to create a perfect “statement,” but to gain a deep understanding of your organization’s core values and purpose which can then be expressed in a multitude of ways. In fact, once the core has been identi ed, we like to suggest that every manager generate his or her own statement of the core values and purpose to share with his or her people.

Final y, don’t confuse “core ideology” with the concept of “core competence.” Here’s the di erence: Core competence is a strategic concept that captures your organization’s capabilities—what you are particularly good at—whereas core ideology captures what you stand for and why you exist. Core competencies should be wel aligned with a company’s core ideology—and are often rooted in its core ideology—but are not the same as its ideology. For example, Sony has a core competence of miniaturization —a strength that can be strategical y applied to a wide array of products and markets—

but does not have a core ideology of miniaturization. Sony might not even have miniaturization as part of its strategy in 100 years, but to remain a great company it wil stil have the same core values captured in the Sony

Pioneer Spirit and have the same fundamental reason for being of advancing technology for the bene t of the general public. In a visionary company like Sony, core competencies change over the decades, whereas core ideology does not.

does not.

Once you're clear about the core ideology, you should feel free to change absolutely anything that is not part of the core ideology.

From then on, anytime someone says something shouldn't change because "It's part of our culture" or "We've always done it that way" or any of the other excuses for resisting change, remind them of this simple rule: If it's not core, it's up for change. Or, the strong version of this rule: If it's not core, change it! Of course, articulating core ideology is just a starting point. You also must determine what type of progress you want to stimulate, which brings us to the second component of the vision framework.

ENVISIONED FUTURE

Envisioned future—the second primary component of the vision framework—consists of two parts: a ten- to thirty-year "Big Hairy Audacious Goal" and vivid descriptions of what it wil be like when the organization achieves the BHAG. We selected the phrase

"envisioned future," recognizing that it contains a paradox. On the one hand, it conveys a sense of concreteness—something vivid and real; you can see it, touch it, feel it. On the other hand, it portrays a time yet unrealized—a dream, hope, or aspiration.

Vision-level BHAG

Although organizations may have many BHAGs at di erent levels operating al at the same time, vision requires a special type of BHAG—a "vision-level" BHAG that applies to the entire organization and requires ten to thirty years of e ort to complete.

(See chapter 5 for a ful discussion of BHAGs.) Set ing the BHAG ten to thirty years into the future requires thinking beyond the current capabilities of the organization and current environmental trends, forces, and conditions. Indeed, inventing such a goal forces an executive team to be visionary, rather than just strategic or tactical.

A BHAG should not be a sure bet—perhaps only 50 to 70 percent probability of success—but the organization must believe “we can

probability of success—but the organization must believe “we can do it anyway.” It should require extraordinary e ort, and perhaps a lit le luck.

In creating such a vision-level BHAG we suggest thinking about the fol owing four categories: target, common enemy, role model, or internal transformation.

Target BHAGs can be quantitative or qualitative. Examples:

• Become a $125 bil ion company by the year 2000. (Wal-Mart, 1990)

• Democratize the automobile. (Ford, early 1900s)

• Become the company that most changes the worldwide image of Japanese products as being of poor quality. (Sony, early 1950s)

• To become the most powerful, the most serviceable, the most far-reaching world nancial institution that has ever been. (City Bank, predecessor to Citicorp, 1915)

• Become the dominant player in commercial aircraft, and bring the world into the jet age. (Boeing, 1950)

Common-enemy BHAGs involve focusing on beating a common enemy—a David versus Goliath BHAG. Examples:

• Knock o RJR as the number one tobacco company in the world.

(Philip Morris, 1950s)

• Crush Adidas. (Nike, 1960s)

• Yamaha Wo tsubusu! (We wil crush, squash, slaughter Yamaha!) (Honda, 1970s)

Role-model BHAGs are particularly e ective for up-and-coming organizations with bright prospects. Examples:

• Become the Nike of the cycling industry. (Giro Sport Design, 1986)

• Become as respected in twenty years as Hewlet -Packard is today.

(Watkins-Johnson, 1996)

• Become the Harvard of the West. (Stanford University, 1940s)

• Become the Harvard of the West. (Stanford University, 1940s) Internal Transformation BHAGs tend to be e ective in old or large organizations in need of internal transformation. Examples:

• Become 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 smal company.

(General Electric, 1980s)

• Transform this company from a defense contractor into the best diversi ed high-technology company in the world. (Rockwel , 1995)

• Transform this division from a poorly respected internal products supplier to one of the most respected, exciting, and sought-after divisions in the company. (components support division of a computer products company, 1989)

Vivid Descriptions

Vivid description, the second component of envisioned future, is a vibrant, engaging, and speci c description of what it wil be like to achieve the BHAG. Think of it as translating the vision from words into pictures, of

creating an image that people can carry around in their heads. We cal this “painting a picture with your words.” This

“picture-painting” is essential for making the ten- to thirty-year BHAG tangible in people’s minds.

For example, recal how Henry Ford brought to life the BHAG to democratize the automobile with the vivid description: “I wil build a motor car for the great multitude. . . . It wil be so low in price that no man making a good salary wil be unable to own one—and enjoy with his family the blessing of hours of pleasure in God’s great open spaces. . . . When I’m through everybody wil be able to a ord one, and everyone wil have one. The horse wil have disappeared from our highways, the automobile wil be taken for granted . . . [and we wil] give a large number of men employment at good wages.”

at good wages.”

In the example above of the components support division, the general manager vividly described the BHAG: “We wil be respected and admired by our peers. . . . Our solutions wil be actively sought by the end-product divisions, who wil achieve signi cant product

“hits” in the marketplace largely due to our technical contribution. .

. . We wil have pride in ourselves. . . . The best up-and-coming people in the company wil seek to work in our division. . . .

People wil give unsolicited feedback that they love what they are doing . . . People wil walk on the bal s of their feet. . . . People wil wil ingly work hard because they want to. . . . Both employees and customers wil feel that our division has contributed to their life in a positive way.”4

Passion, emotion, and conviction are essential parts of the vivid description. Some managers are uncomfortable with expressing emotion about their dreams, but it’s the passion and emotion that wil at ract and motivate others. Winston Churchil understood this when he described the BHAG facing Great Britain in 1940. He didn’t just say “Beat Hitler.” He said:

Hitler knows he wil have to break us on this island or lose the war. If we can stand up to him al Europe may be free and the life of the world may move forward into broad, sunlit uplands.

But if we fail, the whole world including the United States, including al we have known and cared for, wil sink into the abyss of a new Dark Age, made more sinister, and perhaps more protracted, by the lights of perverted science. Let us therefore brace ourselves to our duties, and so bear ourselves that if the British Empire and its Commonwealth last for a thousand years, men wil stil say, “This was their finest hour.”5

A Few Key Points on Envisioned Future

Don’t confuse core ideology and envisioned future, as managers often do. In particular, we see managers confuse core purpose and

often do. In particular, we see managers confuse core purpose and BHAGs, exchanging one for the other, mixing the two together, or failing to articulate both as distinct items. Purpose is the organization’s fundamental reason for existence, which like a star on the horizon can never be reached; it guides and inspires forever.

A BHAG, on the other hand, is a speci c goal which, like a speci c mountain to climb, has a speci c time frame and can be achieved.

Whereas identifying core ideology is a discovery process, set ing the envisioned future is a creative process.

We nd that executives often have a great deal of di culty coming up with exciting BHAGs; they want to “analyze” their way into the future. We’ve found, therefore, that some executives make more progress by starting rst with the vivid description and backing from there into the BHAG. This approach involves starting with questions like: “We’re sit ing here in twenty years; what would we love to see? What would this company look like? What would it feel like to employees? What would it have achieved? If someone wrote an article for a major business magazine about this company in twenty years, what would it say?” One biotechnology company we worked with had trouble envisioning its future. Said one member of the

executive team, “Every time we come up with something for the entire company it is just too generic to be exciting—something banal like “advance biotechnology worldwide.” Asked to paint a picture of the company in twenty years, they described such things as: “the cover of Business Week as a model success story . . . the Fortune most-admired top ten list. . .

the best science and business graduates want to work here . . .

people on airplanes rave about one of our products to captive seatmates . . . twenty consecutive years of pro table growth . . . an entrepreneurial culture that has spawned half-a-dozen new divisions from within. . . management gurus use us as an example of excel ent management and progressive thinking . . .” and so on.

From this, they imputed the BHAG to become the rst biotechnology rm as wel -respected as Merck and Johnson &

Johnson.

It makes no sense to analyze whether an envisioned future is the

It makes no sense to analyze whether an envisioned future is the

“right” one. With a creation—and the task is to create a future, not to predict the future—there can be no right answer. Did Beethoven create the “right” Ninth Symphony? Did Shakespeare create the

“right” Hamlet? We can’t answer these questions; they’re nonsense.

The essential questions about the envisioned future involve such questions as: “Does it get our juices owing? Do we nd it stimulating? Does it stimulate forward momentum? Does it get people going?” The envisioned future must be truly exciting to those inside the organization, otherwise it’s just not a ful - edged BHAG. Indeed, the envisioned future should produce a bit of “the gulp factor” when it dawns on people what it wil take to achieve the goal and the level of commitment to the goal, there should be an almost audible “gulp.”

But what about failure in realizing the envisioned future? We found that the visionary companies display a remarkable ability to achieve even their most audacious goals. Philip Morris did rise from sixth to rst and beat R.J. Reynolds worldwide; Ford did democratize the automobile; Boeing did become the dominant commercial aircraft company; Citicorp did become the most far-reaching bank in the world; and it looks like Wal-Mart wil achieve its $125 bil ion goal, even without Sam Walton. In contrast, the comparison companies in our research frequently did not achieve their BHAGs, in the cases where they set them. The di erence lies not in set ing easier goals, as the visionary companies tended to have even more audacious ambitions than the comparison companies. Nor does the di erence lie in charismatic visionary leadership, as the visionary companies often achieved their BHAGs without such larger-than-life leaders at the helm. Nor does the di erence lie in bet er strategy, as the visionary companies often realized their goals more by an organic process of "try a lot of stu and keep what works" than by wel -laid strategic plans. Rather, the source of their success lies in building the organization as their primary means of creating the future.

Final y, in thinking about envisioned future, beware the "we've arrived syndrome"—complacent lethargy that arises once an

arrived syndrome"—complacent lethargy that arises once an organization has achieved a BHAG and fails to replace it with another. NASA su ered from the we've arrived syndrome after the successful moon landings; after you've landed on the moon, what do you do for an encore? Apple Computer su ered from the we've arrived syndrome when it achieved the goal of creating a computer that non-techies could use. Start-up companies frequently su er from the we've arrived syndrome after going public or reaching a stage where survival no longer seems in question. An envisioned future only helps an organization so long as it hasn't yet been achieved. In our work with companies, we frequently hear executives say, "It's just not as exciting around here as it used to be; we seem to have lost our momentum." Usual y, this signals that the organization has climbed one mountain, and not yet picked a new mountain to climb.

PUTTING IT ALL TOGETHER

To further il ustrate the vision framework, we give in Tables 11.2

and 11.3 two examples of al the elements t ing together into a complete vision: Merck at its time of transition from a chemical company to a pharmaceutical company during the 1930s and Sony as a smal , entrepreneurial company in the 1950s.

Table 11.2

Example of Complete Vision

Merck, 1930s

CORE IDEOLOGY

Core Values

• Corporate social responsibility

• Unequivocal excel ence in al aspects of the company

• Science-based innovation

• Honesty and integrity

• Profit, but profit from work that benefits humanity

Purpose

To preserve and improve human life.

ENVISIONED FUTURE

To transform this company from a chemical

manufacturer into one of the preeminent drug-making BHAG

companies in the world, with a research capability that rivals any major university.

With the tools we have supplied, science wil be advanced, knowledge increased, and human life win ever a greater freedom from suf ering and disease. . . .

We pledge our every aid that this enterprise shal merit the faith we have in it. Let your light so shine—that Vivid Descriptions

those who seek the Truth, that those who toil that this world may be a bet er place to live in, that those who hold aloft that torch of Science and Knowledge through these social and economic dark ages, shal take new courage and feel their hands supported.

Table 11.3

Example of Complete Vision

Sony, 1950s

CORE IDEOLOGY

Core Values

• Elevation of the Japanese national culture and status

• Being a pioneer—not fol owing others, but doing the impossible

• Respect and encouragement of individual ability and creativity

To experience the sheer joy of innovation and the Purpose

application of technology for the benefit and pleasure of

the general public.

ENVISIONED FUTURE

Become the company most known for changing the BHAG

worldwide image of Japanese products as being of poor quality.

We wil create products that become pervasive around the world. . . . We wil be the first Japanese company to go into the American market and distribute directly. .

. . We wil succeed with innovations like the transistor radio that American companies have failed at. . . . Fifty Vivid Descriptions

years from now, our brand-name wil be as wel known as any on Earth . . . and wil signify innovation and quality that rivals the most innovative companies anywhere. . . . “Made in Japan” wil mean something fine, not shoddy.

Many executives have thrashed about with “mission statements”

and “vision statements.” Unfortunately, most of these turn out to be a muddled stew of values, goals, purposes, philosophies, beliefs, aspirations, norms, strategies, practices, and descriptions. Even more problematic, seldom do these statements rigorously link to the fundamental dynamic of visionary companies that we discovered in Built to Last: preserve the core/stimulate progress. Keep in mind that this dynamic, not vision or mission statements, is the primary engine of enduring great companies, and that vision simply provides the guiding context for bringing this dynamic to life. With this deeper understanding, we urge a rigorous application of the concepts in this chapter to recast your vision or mission into an e ective guiding context for building a visionary company. If you do it right, you shouldn’t have to do it again for at least a decade, and you can get on with the most important work: creating alignment.

alignment.

Creating alignment, which is a key part of our ongoing work to help companies transform themselves into visionary companies, requires two key processes: 1) developing new alignments to preserve the core and stimulate progress, and 2) eliminating misalignments—those that drive the company away from the core ideology and those that impede progress toward the envisioned future.

The rst process is a creative process, requiring the invention of new mechanisms, processes, and strategies to bring the core values and purpose to life and to stimulate progress toward the envisioned future. In Chapter 7, for example, we describe how 3M has instal ed multiple mechanisms to preserve its core ideology of innovation and internal entrepreneurship.

The second part of alignment is an analytic process, requiring a disciplined analysis of the organization—its processes, structures, and strategies—to uncover misalignments that promote behavior inconsistent with the core ideology or that impede progress. Most managers we've worked with fal short in eliminating misalignments. If you state teamwork as a core value, but you compensate primarily on individual performance, then you've got to change the compensation structure. If you state innovation as a core value, yet have market share as the dominant strategic objective, then you've got to change your strategy. If you want to encourage people to try a lot of stu and keep what works, then you have to remove penalties for honest mistakes. Keep in mind that this is a never-ending process. When misalignments crop up you've got to kil them as quickly as possible. Think of misalignments as cancer cel s. It's best to get in there and cut them out before they spread too far.

If you go o -site to articulate a vision, then you should come back with at least a half dozen speci c, concrete changes to make in your organization to increase alignment. What can you add to the organization to bet er preserve the core and stimulate progress?

And, just as important, what should you obliterate in your organization that's currently driving you away from the core and/or

organization that's currently driving you away from the core and/or blocking progress? If you do this right, you wil spend only a smal percentage of your time articulating the vision. The vast majority of your time wil be spent bringing the organization into alignment.

Yes, it's very important to stop and think about vision. But even more important, you have to align the organization to preserve the core ideology and stimulate progress toward the envisioned future, not merely write a statement. Keep in mind that there is a big di erence between being an

organization with a vision statement and becoming a truly visionary organization. When you have superb alignment, a visitor could drop into your organization from another planet and infer the vision without having to read it on paper. This is the primary work of the clock-builder.

* This chapter first appeared as the lead article in the September/October 1996 issue of Harvard Business Review.

Epilogue

Epilogue

Frequently Asked Questions

While conducting seminars, giving talks, and working as consultants to companies, we've encountered a number of questions about our ndings and ideas. Here are the most common, and our brief answers.

Q: I'M NOT CEO. WHAT CAN I DO WITH THESE FINDINGS?

Plenty.

First, you can apply most of our ndings in your work area, albeit on a smal er scale. You can be a clock builder at any level, for this is a state of mind as much as a method of operating. Instead of instinctively jumping in to solve a problem in the heroic leader mode, ask rst, "What process should we use to solve this problem?" You can build a cult-like culture around a strong ideology at any level. Of course, it wil be constrained somewhat by the ideology of the overal organization, but it can be done. And if the overal company doesn't have a clear ideology, then al the more reason (and freedom) to put one in place at your level! Just because the corporation as a whole might not have a strong core

because the corporation as a whole might not have a strong core ideology doesn't mean your group should be deprived. One manufacturing manager for a computer company told us: "I got tired of waiting for those on top to get their act together, so I just went ahead with my people. We now have a very distinct set of values here in my group, and we manage by them. It gives my people a greater sense of meaning in their work. We have a strong self-identity within the company, and we interview people with an eye to how they'l t with our team. People feel they belong to something special. We even have our own jackets and caps."

You can also stimulate progress at any level. We've seen BHAGs work particularly wel at midlevels. A real estate operations manager within a larger company asks every single employee and manager in her group to set

a personal BHAG for each year. She also sets a BHAG for the entire group. And there's no reason why you can't create a group culture that encourages people to try a lot of stu and keep what works. Why not put in place a 3M-style 15

percent rule in your group? Why not invent mechanisms of discontent to stimulate change and improvement before you're forced to change and improve? One manager running an internal components operation that had captive customers within a larger company went to the divisions his group supplied and said: "From now on, we're not going to hold you to the policy that you have to get al of your components from us. If you can get bet er components, faster turnaround, bet er service, or higher quality from outside vendors, then okay. Knowing that you can go elsewhere wil force us to get bet er."

Another powerful step you can take is to educate those around you about the key ndings from the companies we studied. Help them understand the importance of building the organization, rather than just building the next great product. Help them understand the concept of preserving the core and stimulating progress. Point out to people where the organization is misaligned and why alignment is so vital. Help them reject the Tyranny of the OR. For example, one middle manager we know frequently gets people unstuck during meetings by saying, "Hey, I think we're

people unstuck during meetings by saying, "Hey, I think we're succumbing to the 'Tyranny of the OR' here. Let's nd a way to embrace the 'Genius of the AND.' " And they usual y do.

You can use the visionary companies as a source of immense credibility. For example, if senior executives resist articulating core values or purpose as too "soft" or "new age," point to Hewlet -

Packard, Merck, 3M, Procter & Gamble, Sony, and others in this book—and point to how they've done this for decades. How can any hard-nosed executive argue with the long-term track record of these companies? Indeed, you can use these companies as credibility to virtual y demand that senior management pay at ention. What executive could not be interested in at aining the enduring stature of these companies?

Q: IS THERE HOPE FOR OLD, LARGE, NONVISIONARY CORPORATIONS?

Yes, but the task is probably more dif icult than building a visionary company from the ground up. For one thing, there wil be entrenched processes and practices that need to be changed or obliterated in order to align with an ideology. The older and larger the company, the more entrenched the misalignments.

Yet we've seen a number of positive examples. Even in our own study, we saw a visionary company that strayed from its ideology, yet returned to it decades later and pul ed o an amazing realignment: Ford. And Philip Morris did not display many characteristics of a visionary company until about the late 1940s—

at about its one hundredth birthday. Additional y, we've seen remarkable progress at companies we've worked with. One large bank, for instance, began working with our preliminary ndings a few years ago and—for the first time in its history—pinned down its core ideology and began a long process of aligning itself to preserve the core and stimulate progress. One of its executive vice presidents explained: "I've worked at this company my entire life, and I'd begun to lose hope. But once we became clear in our own minds about what we real y stand for and began to change the

about what we real y stand for and began to change the organization to t with that, wel , the release of human energy has been amazing. People al the way down to the individual branch level feel that their work has more meaning than it used to. And now that we know what is core and should remained xed, we've felt liberated to change anything else—to slay sacred cows that had real y been get ing in our way. It's like awakening a sleeping giant.

We're not at the level of your visionary companies yet, but we've come a long way."

Being a visionary company is a continuum. It is not static. Any company at any time can move along that continuum and become more visionary—

even if it has a long way to go. Again, it’s a long-term process. The race goes to those who persist and never quit moving in that direction. Our ndings do not represent a quick x, or the next fashion statement in a long string of management fads, or the next buzzword of the day, or a new “program” to introduce.

No! The only way to make any company visionary is through a long-term commitment to an eternal process of building the organization to preserve the core and stimulate progress.

Q: WHAT GUIDANCE WOULD YOU GIVE TO A VISIONARY

COMPANY THAT SEEMS TO BE LOSING ITS VISIONARY STATUS

—LIKE, SAY, IBM?

IBM’s a great case, because it was arguably one of the most visionary companies in the world for nearly seventy years. IBM

shows that not only can companies move forward on the continuum of visionary status, they can also move backward. Once a visionary company does not necessarily mean always a visionary company!

Like democracies, visionary companies require eternal vigilance.

A company like IBM should learn the lessons of its own past. For decades, IBM cherished and fanatical y protected its core values (cal ed the “Three Basic Beliefs”) while simultaneously being one of the most progressive companies on the planet. IBM commit ed to some of the most audacious BHAGs in history, including a bet-the-company decision to go with the IBM 360 and render obsolete

company decision to go with the IBM 360 and render obsolete nearly al of its prior product lines. Bold! Yet then IBM got conservative in the 1980s, protecting its mainframe line. It lost sight of its own past.

If we were sit ing down with the senior executives at IBM, we’d chal enge them to set a BHAG of boldness equal to that of the IBM

360. We'd chal enge IBM to once again obsolete itself, to bet the company on the success or failure of that BHAG, just like it did on the 360. We'd chal enge them to have faith that IBM people would come through and achieve the impossible again, just like they did on the 360. IBM has great people, and they would undoubtedly rise to the task.

We'd also chal enge the IBM executives to revisit the three basic beliefs, just like J&J revisited its credo in the 1970s. We'd chal enge them to have the top one hundred managers and a thousand IBMers chosen at random to at end a rededication to the beliefs and al sign a giant printed version of them. We'd chal enge them to cast that giant signed document in bronze, reproduce it, and place replicates of it in every single IBM facility in the world. We'd chal enge them to ask every employee in the company to personal y rededicate himself or herself to the three basic beliefs—in writing.

Final y, we'd chal enge them to set up a realignment process for preserving the core and stimulating progress. We'd chal enge them to identify at least fifty speci c misalignments with the three basic beliefs. We'd chal enge them to identify at least fty more speci c misalignments that inhibit progress. And then we'd chal enge them to not just change these misalignments, but eliminate them entirely.

We believe IBM has the roots to regain its stature as one of the most visionary companies in the world. If IBM reembraces the basic lessons of being a visionary company, then we believe it wil regain its stature and hold it for the next seven decades. If, on the other hand, it does not reembrace these lessons then we believe it wil continue to decline in the long term, even though it might bounce back in the short term.

Although the speci cs would be di erent, we'd give the same

Although the speci cs would be di erent, we'd give the same guidance to any visionary company on the decline. We'd ask them to learn the lessons of their own past. We'd ask them to reclarify and recommit to their ideology —to get back to their basic roots.

And we’d ask them to make dramatic, bold moves forward. Most important, we’d put them on a ruthless realignment program to preserve the core and stimulate progress.

Q: ARE THERE ANY PEOPLE WHO CAN’T BUILD A VISIONARY

COMPANY?

Few. The only people who can’t do it are those unwil ing to persist for the long haul, those who like to rest on their laurels, those with no core ideology, and those who do not care about the health of the company after they’re gone. If you want to start a company, build it quickly, make a lot of money, cash out, and retire, then building a visionary company is not for you. If you don’t have a drive for progress—an internal urge to never stop improving and going forward for its own sake—then building a visionary company is not for you. If you don’t have any interest in a values-driven company with a sense of purpose beyond just making as much money as possible, then building a visionary company is not for you. If you don’t care about building the company so that it wil be strong not only during your tenure but also decades after you’re gone, then building a visionary company is not for you. But beyond these four, we see no other prerequisites.

Q: DO YOUR FINDINGS APPLY TO NONPROFIT

ORGANIZATIONS?

Yes. They can apply in any type of organization, although the form might vary. We’re employed by a nonpro t organization (Stanford University) and Jerry is an associate dean there. We’ve found our ndings to apply quite wel . We’ve also seen executives at for-pro t corporations take our ndings and apply them in nonpro t organizations. One CEO of a visionary company directly applies the

organizations. One CEO of a visionary company directly applies the ideas at his church. Another executive brings them to a hospital of which she is a director. We even think the architects of the United States used the concepts of visionary companies.

Q: HOW DOES YOUR BOOK FIT OTHER WORKS, SUCH AS IN

SEARCH OF EXCELLENCE?

In Search of Excel ence stands out as one of the outstanding books of the past two decades, and deservedly so. Everyone should read it.

We found a lot of compatibility between Peters and Waterman's work and ours. But there are also some key di erences. One di erence is in method: Unlike their research project, we looked at companies throughout their entire life spans and in direct comparison to other companies. Another key di erence is that we boiled al of our ndings into a framework of underlying ideas. In particular, the concept of preserving the core and stimulating progress provides an umbrel a over virtual y everything we observed. We found some of their "eight at ributes" to be wel supported in our research, in particular: Hands-On/Value-Driven, Autonomy & Entrepreneurship, A Bias for Action, and Simultaneous Loose-Tight Properties. But we also found some of the eight at ributes less wel supported, in particular: Stick to the Knit ing and Close to the Customer. If you de ne the "Knit ing" as the core ideology, then yes, visionary companies stick to the knit ing. But as long as they don't breach the core, anything is fair game—and that can take companies like Motorola and 3M far a eld from where they started. And with Close to the Customer, we found a number of our companies to be much more technology-driven than customer-driven: Sony, HP, and Merck immediately come to mind.

It's not that they don't care for their customers or serve them wel ; quite the contrary. But al three of these companies wil ignore customer demands if those demands pul them away from their ideology, as HP did when it ignored customers clamoring for cheap IBM-compatible computers or cheap pocket calculators. Close to the customer yes, but never at the expense of the core.

the customer yes, but never at the expense of the core.

We also found extensive compatibility with the work of Peter Drucker. In fact, we came away with immense respect for Drucker's prescience. Read his classic works: Concept of the Corporation (1946), The Practice of

Management (1954), and Managing for Results (1964), and you'l get one heck of a jolt in seeing how far ahead of today's management thinking he was. In fact, as we did our research, we came upon a number of companies that were tremendously in uenced by Drucker's writings: HP, GE, P&G, Merck, Motorola, and Ford to name a few.

Final y, we also found compatibility with other works, such as Edgar Schein's Organizational Culture and Leadership (1985) and John Kot er and James Hesket 's Corporate Culture and Performance (1992). Schein writes about cultural "hybrids"—

managers that grow up in the core of the company, yet are able to bring about cultural change (without losing the core values). Our chapter on home-grown management ts wel with Schein's ndings, especial y our discussion of Jack Welch at GE. Kot er and Hesket explored the relationship between strong cultures and organizational performance, which dovetails with our ndings about cult-like cultures in high-performing organizations.

Q: YOU STUDIED THE PAST. DO YOU WORRY THAT YOUR

FINDINGS MIGHT BECOME OBSOLETE IN THE TWENTY-FIRST

CENTURY?

No. If anything, we believe our ndings wil apply more in the twenty- rst century than in the twentieth. In particular, the essential ideas to come from our work—clock building, the Genius of the AND, preserving the core/stimulating progress, and alignment—wil continue to be key concepts long into the future. We cannot easily picture a scenario where they would become obsolete.

Take clock building, for example. The concept of focusing on building the characteristics of the organization versus coming up with a great idea or being a great charismatic leader wil become even more important. With the accelerating rate of technological

even more important. With the accelerating rate of technological change, increasing global competition, and dramatical y shorter product life cycles, the life span of any speci c idea wil continue to decline. No mat er how great the idea, it wil become obsolete more quickly than at any time in the past.

And as for the charismatic leader model, we think the world is heading in exactly the opposite direction. Just look at the twentieth century. Nearly the entire world has moved toward democracy.

Democracy is a process. The very essence of democracy is to avoid overdependence on any single leader and put the primary focus on the process. Even Churchil —perhaps the single greatest leader of this century —was secondary to the nation and its processes, kicked out of o ce at the end of World War I . Hitler, Stalin, Mussolini, Tōjō—these were charismatic leaders who did not understand that they were fundamental y less important than the institutions they served. And even if you don't buy the analogy between the shift to democracy and the evolution of corporations, the great charismatic leader model has one fundamental aw that wil not ever go away

—not now, not in the twenty- rst century, not in a thousand years: Al leaders die. And to transcend this unchanging reality, the focus must be rst and foremost on building the characteristics of the organization.

Our key framework concept, preserving the core/stimulating progress, wil also become increasingly important in the twenty-first century. Look at the trends of business organization: at er, more decentralized, more geographical y dispersed, greater individual autonomy, more knowledge workers, and so on. More than at any time in the past, companies wil not be able to hold themselves together with the traditional methods of control: hierarchy, systems, budgets, and the like. Even going into the o ce wil become less relevant as technology enables people to work from remote sites.

The corporate bonding glue wil increasingly become ideological.

People stil have a fundamental human need to belong to something they can feel proud of. They have a fundamental need for guiding values and sense of purpose that gives their life and work meaning. They have a fundamental need for connection with

work meaning. They have a fundamental need for connection with other people, sharing with them the common bond of beliefs and aspirations. More than any time in the past, employees wil demand operating autonomy while also demanding that the organizations they're connected to stand for something.

And look at the trends of the outer world: fragmentation, segmentation, chaotic change, unpredictability, increased entrepreneurship, and so on. Only those companies particularly adept at stimulating progress wil be able to thrive. Companies wil need to continual y renew themselves, perhaps through awesome BHAGs, in order to remain exciting places to work. Companies in search of greatness wil need to relentlessly push themselves for self-stimulated change and improvement before the world demands change and improvement. Companies that mimic the evolution of wel - adapted species—those that try a lot of stu and keep what works—wil have bet er odds of survival in an unpredictable, changing environment; others wil likely become extinct. We think the visionary companies of the twenty-rst century wil need to become increasingly fanatical about preserving their core ideology and becoming increasingly aggressive in granting operational autonomy to individual employees. More than ever before, companies wil need to embrace the yin and yang dynamic of preserving the core and stimulating progress.

That said, companies must apply the general ndings from our work with imagination. We deliberately chose not to write a "ten-step program" style of book. It would have been a terrible disservice to our readers and our research. Indeed, the last thing a visionary company would ever do is fol ow a cookbook recipe for success, any more than Michelangelo would have bought a paint-by-numbers kit. Building a visionary company is a design problem, and great designers apply general principles, not mechanical lock-step dogma. Any speci c how-to wil almost certainly become obsolete. But the general concepts—adapted, of course, to changing conditions—can last

as guiding principles wel into the next century. We doubt that the basic elements underlying companies like Merck, Motorola, Procter & Gamble, and 3M wil be any

like Merck, Motorola, Procter & Gamble, and 3M wil be any di erent a century from now. The form wil undoubtedly change, but not the essential elements.

Appendix 1

RESEARCH ISSUES

“PLAYING WITH FIRE” (WHAT ABOUT BANKRUPT VISIONARY

COMPANIES?)

Our research would not capture companies that have visionary characteristics yet fail. Might it be that a higher percentage of companies that share the visionary characteristics go bankrupt than those companies that do not share the visionary characteristics? To use an analogy, suppose we studied the climbing techniques of two groups of mountain climbers: “visionary climbers” who successful y climb Mount Everest and “comparison climbers” who do not successful y climb Mount Everest. Further suppose that we found differences between the two groups (such as in philosophy, in training, or in risk taking). It’s entirely possible that the “visionary climbers” die at a more frequent rate than the “comparison climbers,” but since we’re only studying climbers that lived, we wouldn’t catch that fact in the study. So, although we could give good guidance as to what it takes to be a visionary climber, we might (unwittingly) also be giving guidance that increases the odds of death. Similarly, suppose having the characteristics of a visionary company results in a 75 percent bankruptcy rate (al owing that 25 percent do go on to become super-premier institutions) and having comparison company characteristics results in only a 50 percent failure rate (al owing that the surviving 50

percent do not become super-premier institutions). Under these circumstances, perhaps some managers would want to forgo being visionary and increase the chances of simple survival.

We have two responses to this concern. First, some climbers do indeed die while trying to climb Mount Everest, but only those who ful y try to climb Mount Everest (whatever the risks) do in fact ever reach the summit. We cannot deny the possibility that some companies with visionary characteristics have died out there on the corporate landscape. But so what? We're not writing about mere survival in this

book. We don't find mere survival to be a very interesting topic. We're interested in how companies might attain entrance to that special category of premier institutions, and we readily admit that it might require a risky path to get there.

But—and this is our second response—we believe (although we cannot prove) that the visionary characteristics might actual y increase both the odds of greatness and the odds of survival. We return again to our historical perspective. We're not writing about one-shot companies here. We're writing about enduring companies that have faced massive change and prospered for decades. If being visionary is risky, then why has this risk not caught up with these companies and kil ed them at some point during their very long lives?

IS "VISIONARY" JUST ANOTHER WORD FOR

"SUCCESSFUL"?

Using the CEO survey implicitly assumes financial success. We readily acknowledge this. After al , would CEOs describe unprofitable companies as highly visionary? Probably not. This raises a legitimate chicken-and-egg question: Do we simply ascribe the term "visionary"

to any company that turns out to be successful? No. There are many financial y successful companies that did not show up on our list of visionary companies. We did an extensive analysis of corporate performance of Fortune 500 companies for the decade prior to our survey. This analysis showed that the visionary companies were not the only highly successful companies during that time frame. In fact, if you just took the top eighteen companies in the Fortune 500 Industrial plus Fortune 500 Service listings in terms of return to investors during the period 1978—1988 (the

decade preceding our survey), the list looks quite different than our visionary company list, as shown below.

Top 18 Fortune Industrial and Service Companies Return to Investors, 1978—1988

1. Hasbro

2. The Limited

3. Wal-Mart*

4. Affiliated

5. Tele-Communications

6. Giant Food

7. Toys “R” Us

8. Marion Laboratories

9. State Street Boston Corp

10. Berkshire Hathaway

11. DCNY

12. Macmil an

13. Cooper Tire & Rubber

14. Tyson Foods

15. Philips Industries

16. MCI Communications

17. Dil ard Department Scores

18. Food Lion

*Visionary company

The evidence suggests that our surveyed CEOs saw a visionary company as more than just a highly profitable company (else we would have simply had a one-for-one linkage between the top financial performers in 1978—1988 and the CEO responses). Of course, from the period 1926—1990, our visionary companies outperformed just about everyone. This suggests that if the CEOs were thinking only in terms of financial success, they were thinking in terms of very long-term success, which fits with our picture of a visionary company as an enduring great institution.

CAN WE TRUST THE CEO SURVEY TO GIVE US THE RIGHT

COMPANIES?

Doing a survey—even a survey of highly thoughtful and knowledgeable people such as leading CEOs—is an imperfect method. Our survey attempted to minimize bias, but did not eliminate bias entirely. For one thing, companies that received significant positive press coverage around the time of the survey may have received undue representation in the survey results. For example, American Express received fabulous press—some of it labeling the company as “visionary”—in the few months immediately prior to the survey. This perhaps influenced some of the CEO responses and gave American Express unduly high representation in the survey data. As we compare American Express to the other companies on our list, it shares fewer characteristics of a visionary company.

We also acknowledge that relying on a survey assumes that visionary companies are, by definition, widely known and admired.

This, in turn, introduces a bias toward large, publicly held companies.

(Notice that al of the companies in our final sample set are publicly traded.) But might there be highly visionary companies (perhaps even more visionary than those in our study) that prefer to remain smal or out of the public eye? For example, L.L. Bean and Granite Rock (1992

winner of the Malcolm Baldrige quality award—quite a feat for a rock quarry) appear to share many of the traits of our visionary companies, but they remain privately held and somewhat secluded institutions.

Though acknowledging these difficulties, we stil believe that the CEO survey, while less than perfect, was the best available method for constructing a study set. Since we didn't know ahead of time the key characteristics of a visionary company (that's what we were trying to find out!), we couldn't construct a precise scientific screening device.

Most important, the survey had the benefit of a wide population of discerning judges who didn't share our idiosyncratic prejudices.

In a related point, some have asked whether our survey merely recreated Fortune magazine's list of "Most Admired" companies (which also uses a CEO survey), rather than a list of "visionary companies." No. We thoroughly analyzed the Fortune "Most Admired"

lists for the years 1983—1990 and, although the visionary companies are wel represented in the Fortune survey, we did not find a one-for-

one correlation. In 1989 al of the visionary companies common to both lists fel in the top 30 percent of the Fortune list, but not in a one-for-one correlation with the top eighteen. (Only two of the comparison companies showed up in the top 30 percent of the Fortune list.) Of course, the visionary companies are admired (as we would expect), but visionary companies are not merely a regurgitation of the Fortune

"Most Admired" list.

CORRELATIONS VERSUS CAUSES

We identified certain characteristics that tend to distinguish the visionary companies from the comparison companies in this particular sample set. We can therefore claim that there is a correlation between these differences and the visionary companies. However, we cannot claim a causal link. We cannot prove that the characteristics of visionary companies wil necessarily lead to enduring success in al cases. Nor do we know definitively that the

companies in our study have discovered an optimal approach to business—perhaps there are a number of privately held companies that no one has studied that were even more successful for longer periods of time, yet relied on a different set of dynamics. We cannot claim to have definitively found cause and effect. Tightly control ed experiments simply do not exist in the real world of corporations, and it is therefore impossible to ever claim cause and effect with 100 percent certainty. Our comparison analyses give us greater confidence that we have identified causes and not just random correlations than we would have had without comparisons, but they cannot give us certain confidence.

We'd like to emphasize, however, that the basic elements we found to distinguish the visionary companies usually appeared in the companies long before they became hugely successful premier institutions. Indeed, the fact that such characteristics general y preceded ultimate success (a fact that shows again the power of the historical approach) gives us confidence that we have found more than chance correlations.

TROUBLED TIMES AT THE VISIONARY COMPANIES

In the early 1990s, the majority of the visionary companies in our study were undeniably premier institutions in their industries. Nonetheless, a few of the visionary companies were having difficulty. Does this undermine the basic validity of our findings? We don't think so, for two reasons.

First, it's important to keep in mind that all the highly visionary companies in our study, even the ones doing wel in the 1990s, received black eyes at points in their history. Highly visionary companies are not immune to setbacks and difficult times, yet they display resiliency and have built remarkable long-term track records.

Consider IBM, for example. Whatever IBM's problems in the 1990s, the company had an impressive seven-decade track record that included two world wars, the Depression, and the invention of computers. No company in the business machines industry matched IBM stride for stride over that seventy-year period. Even in IBM's darkest hours, the business press referred to it as "a national treasure." A company does not attain such status

by accident, and we believe that there are many lessons to be learned from IBM’s history—

its successes and its difficulties. What lessons should IBM learn from its own past? What does it need to do to regain its prior status?

Second, keep in mind that throughout our study we continual y compared one company to another. So, although no company is perfect (al have their warts), some companies do attain superior status over the long haul. For example, when Burroughs languished and lost its own unique identity, no one wrote about the demise of “a national treasure.” For most people, Burroughs was just another company. Why did IBM rise to an elevated status while Burroughs never reached a similar status in the American psyche or world economy? Whatever their imperfections, the fact remains that the visionary companies have outshined the general market and a careful y selected control set of comparison companies over the long course of history. We can learn much from the contrast.

LARGE COMPANIES VERSUS SMALL COMPANIES

Is the study biased toward large companies? Yes and no. Yes, the list consists only of large corporations. But every single company on the list was once a small company. We looked at these companies not only when they were large, but also when they were smal , and we sought to gain insights that would apply to smal companies as wel as large companies. Keep in mind that we also surveyed CEOs of smal to midsize companies (from the Inc. 500 and Inc. 100); even the smal -

company CEOs wanted to learn lessons from companies that became large.

UNEVEN INFORMATION

The quality and quantity of historical information varied across companies. Some companies, such as Hewlett-Packard and Merck, opened their archives to us and provided multiple boxes of primary source materials. Most companies (even the comparison companies) cooperated freely, although the quality of information varied. In a few cases, however, the company refused to cooperate in the study and we therefore relied entirely

on secondary sources. Furthermore, the secondary sources varied in quality and quantity across the companies. For example, we found no books written specifical y about Nordstrom, but we found stacks of books on such companies as Ford, IBM, Disney, and GE. We did our best to locate al possible sources on each and every company, and we found substantial sources on al but one company (Kenwood). There is no such thing as perfect information. But, given the magnitude of information we did have, we're confident that our findings would not change significantly given perfect information. If anything, we suspect they would be further reinforced.

UNITED STATES BIAS

We surveyed only American CEOs and only examined one pair of nonU.S. companies (Sony versus Kenwood). We believe that the basic dynamics of being a visionary company wil hold up across cultures and nationalities, but we also suspect that the flavor of those dynamics

wil

vary—perhaps

dramatical y—across

cultures.

We

freely

acknowledge this fact and encourage future research into cross-cultural differences in visionary companies.

Appendix 2

FOUNDING ROOTS OF VISIONARY COMPANIES

AND COMPARISON COMPANIES

3M1

Year founded: 1902

Founder(s): Five Minnesota investors—two railroad operators, a physician, a meat-market operator, and an attorney Location: Crystal Bay, MN

Founding Concept: To open and operate a mine to extract corundum as an abrasive to export to grinding-wheel manufacturers.

Initial Results: Mining business failed after sel ing only one ton of material; no further purchasers could be found. Company stumbled along via personal accounts of the investors and saved by a new investor (Louis Ordway), who helped the company shift to sandpaper production in 1905. 3M could not afford to pay its president (Edgar Ober) a salary during his first eleven years.

Norton2

Year founded: 1885

Founder(s):

Seven

investor-managers

of

diverse

business

backgrounds

Location: Worcester, MA

Founding Concept: Purchased smal grinding-wheel company from Frank Norton to capitalize on the growing market for grinding wheels for the

expanding machine tools industry.

Initial Results: Early growth and success; paid steady annual

dividends in al but one of its first fifteen years of operations and multiplied its capital fifteen times over during the same time. By 1990, Norton had become the number one company in its industry.

American Express3

Year founded: 1850

Founder(s): Henry Wel s (age unknown), Wil iam Fargo (age unknown), John Butterfield (age unknown)

Location: New York, NY

Founding Concept: To eliminate “wasteful competition” between three rival companies (Wel s & Company; Livingston, Fargo & Company; and Butterfield, Wasson & Company) in the freight express business, the three companies agreed to join forces into one, somewhat monopolistic, company.

Initial Results: Immediately profitable and rapidly growing (not surprising with a near monopoly).

Wells Fargo4

Year founded: 1852

Founder(s): Henry Wel s (age unknown), Wil iam Fargo (age unknown)
Location: San Francisco, CA

Founding Concept: To provide express (package delivery) and banking services in the expanding California market (expansion due to the gold rush).

Initial Results: One of the only companies to survive the California banking shakeout of 1855, and emerged in strong position with few competitors

after the panic. Expanded rapidly from 1855 to 1866.

Boeing5

Year founded: 1915

Founder(s): Wil iam E. Boeing (age 35)

Location: Seattle, WA

Founding Concept: From the articles of incorporation: “To be a general manufacturing business ... to manufacture goods, wares, and general merchandise of every kind, especial y airplanes and vehicles of aviation ... to operate a flying school and act as a common carrier of passengers and freight by aerial navigation.” Bil Boeing entered the business as an ex-lumber merchant.

Initial Results: Bil Boeing’s first airplane (the B&W) failed its Navy tests. Boeing then sold fifty of its second plane (the Model C) to the Navy, but could not extend the contract and the company spiraled downward through 1919–1920. Boeing lost $300,000 in 1920 and kept itself alive through loans from Bil Boeing and making furniture and speedboats.

Douglas Aircraft6

Year founded: 1920

Founder(s): Donald W. Douglas (age 28)

Location: Los Angeles, CA

Founding Concept: To design and build an aircraft for the first nonstop flight across the United States (the Cloudster). Company reorganized in 1921 into a new corporation to transfer technology from Cloudster to fulfil contract for experimental torpedo bombers for the Navy.

Initial Results: Successful y gained quantity contract from the Navy for eighteen torpedo bombers and soon thereafter obtained further contracts

from the U.S. and Norwegian governments. The company attained early success and grew at an average annual rate of 284

percent per year during its first four years of operations.

Citicorp7

Year founded: 1812

Founder(s): Samuel Osgood (age unknown)

Location: New York, NY

Founding Concept: Essential y a private credit union for its merchant-owners, who used it to finance their own ventures.

Initial Results: No coherent strategy and continued to operate like a private bank for nearly seventy years. Didn’t begin process of becoming a national bank until the 1890s under the guidance of James Stil man.

Chase Manhattan8

Year founded: 1799 for Bank of Manhattan and 1877 for Chase Bank.

Founder(s): Aaron Burr (age unknown) for Bank of Manhattan and John Thompson (age unknown) for Chase Bank

Location: New York, NY

Founding Concept: To be a bank.

Initial Results: Bank of Manhattan flourished from 1808 on. The Chase Bank didn’t become prominent until 1911.

Other Comments: Chase and Manhattan merged in 1955.

Ford9

Year founded: 1903

Founder(s): Henry Ford (age 40) and Alex Malcomson (age unknown)
Location: Detroit, MI

Founding Concept: To make automobiles based on Henry Ford's mechanical expertise and, in particular, to capitalize on vertical piston technology. One of 502 firms founded in the United States between 1900 and 1908 to make automobiles.

Initial Results: First car, the Model A, proved successful; reached sales of over six hundred units per month by the end of the first year of operations. Introduced five models (A, B, C, F, and K) before introducing the Model T in 1908, which revolutionized the industry and made Ford the number one car maker.

Other Comments: Although Ford did not found the company specifical y to build the Model T, it appears that he had considered the idea of the mass-production line manufacturing process as early as 1903.

General Motors10

Year founded: 1908

Founder(s): Wil iam Durant (age unknown)

Location: Detroit, MI

Founding Concept: To acquire and organize a range of smal er automakers into one company with the strategy of providing a variety of cars for a variety of tastes and incomes and capitalizing on shared financial and other resources.

Initial Results: Between 1908 and 1910, Durant acquired seventeen companies—including

Oldsmobile,

Cadil ac,

and

Pontiac—to

complement Buick Motors. Added Chevrolet in 1918. Bumpy road with strong growth but financial crises; Durant ousted in 1920.

Other Comments: From 1921 to 1927, GM under the guidance of Alfred Sloan, caught and passed Ford to became the number one automaker.

General Electric11

Year founded: 1892

Founder(s): Thomas Edison (age 45), Elihu Thomson (age 39), Charles Coffin (age 48)

Location: New York, NY

Founding Concept: Consolidation of Edison General Electric Company (founded in 1878 to develop and commercialize Edison's electricity and lighting research) and Thomson-Houston Electric Company (founded in 1883 as a conglomerate of electricity-related businesses).

Initial Results: Successful first year ($3 mil ion earnings in seven months); financial difficulties and cash shortage in 1893 due to national depression; recovered and grew steadily through the next two decades aided, in part, by evolving to the AC system.

Westinghouse12

Year founded: 1886

Founder(s): George Westinghouse (age 39)

Location: Pittsburgh, PA

Founding Concept: To develop and commercialize alternating current (AC) electricity technology and the concept of central power systems—

a technology that eventual y proved superior to Edison's DC system—

and thereby make the AC system the primary system throughout the world.

Initial Results: Superior technology concept led to substantial early success, turning the company into the number two company in the industry, and George Westinghouse was able to finance initial growth for two decades without losing control of the company.

Other Comments: Financial trouble during the national panic of 1907

led bankers to oust Westinghouse from his own company in 1910.

Hewlett-Packard13

Year founded: 1937

Founder(s): Wil iam Hewlett (age 26) and David Packard (age 26)

Location: Palo Alto, CA

Founding Concept: Initial approach was “strictly opportunistic” within the broadly defined “radio, electronic, and electrical engineering field.”

Initial products considered in early years included welding equipment, shock machines for weight reduction, automatic urinal flushers, bowling al ey sensors, radio transmitters, public address systems, air-conditioning equipment, clock drives for telescopes, medical equipment, and oscil oscopes.

Initial Results: Kept itself alive in the first year via contract engineering jobs and lean operations (in a garage). In 1939, sold a few audio oscil oscopes. First-year sales: just above $5,100 with a profit of $1,300. Moved out of garage in 1940. Seventeen people employed in 1941. World War I boosted employment to 144 people; shrank twenty percent after the war. Sales in 1948: $2.1 mil ion.

Texas Instruments14

Year founded: 1930

Founder(s): Dr. J. Clarence Karcher (age unknown) and Eugene McDermott (age 31)

Location: Newark, NJ

Founding Concept: Began life as Geophysical Service, Inc., “the first independent company to make reflection seismograph surveys of potential oil fields, and its Texas labs developed and produced instruments for such work.” The company moved to Dal as, Texas, in 1934 to solidify its position in the oil exploration business. Changed its name to Texas Instruments in 1951.

Initial Results: Quickly became the market leader in geophysical exploration business. Grew and prospered in the early and mid-1930s.

Stumbled in the early 1940s when it tried to move into the oil exploration

business directly. Saved itself by applying seismic technology to signal search for the military. Recovered wel during World War I .

IBM15

Year founded: 1911 (1890 for root companies)

Founder(s): Charles Flint (age unknown)

Location: New York, NY

Founding Concept: Merger of two smal companies into a mini-conglomerate of measuring scales, time clocks, and tabulating machines

for clerks and accountants (named the “Computing, Tabulating, Recording Company,” or CTR.)

Initial Results: Floundered for three years and the board seriously discussed liquidation. In 1914, hired Thomas J. Watson, Sr., who gradually improved the health of the company and turned it into the market leader in tabulating machines by 1930.

Other Comments: Changed name to the International Business Machines Corporation in 1925.

Burroughs16

Year founded: 1892

Founder(s): Wil iam Burroughs (age unknown), Joseph Boyer (age unknown)

Location: St. Louis, MO

Founding Concept: Wil iam Burroughs invented the first-ever recording and adding machine and formed a company (named the American Arithmometer Company) to market it.

Initial Results: Once on the market, the product proved a success and the company grew. Burroughs consolidated its position in the industry through new products and acquisitions. In 1914, the company had ninety products. In 1920, it was viewed as a “mainstay of the office-machine industry.”

Other Comments: Wil iam Burroughs received the Franklin Institute’s

John Scott Medal for his invention; he died in 1898 from tuberculosis; company renamed “Burroughs Adding Machine Company” in his memory in 1905.

Johnson & Johnson17

Year founded: 1886

Founder(s): Robert W. Johnson (age 41), James Johnson, E. Mead Johnson (younger brothers of Robert W.; ages unknown) Location: New Brunswick, NJ

Founding Concept: Manufacture of medical products, with particular emphasis on antiseptic surgical dressings and medical plasters; first catalog had thirty-two pages “crammed with an array of products.”

Initial Results: The company began with fourteen employees in 1886; in 1888, the company employed 125 workers; in 1894, the company employed 400. Early success based on a wide range of innovative products, emergence of hospitals, and cultivation of a strong brand image.

Bristol-Myers18

Year founded: 1887

Founder(s): Wil iam McLaren Bristol (age early 20s), John Ripley Myers (early 20s)

Location: Clinton, NY

Founding Concept: Acquired for $5,000 “a failing drug manufacturing firm cal ed the Clinton Manufacturing Company.” Neither Bristol nor Myers had any background in pharmaceuticals.

Initial Results: Struggled early on; in 1889, the company employed only nine employees; did not earn a profit during its first twelve years of operations. The company did not begin to grow rapidly until 1903, when it introduced new hit products: Sal Hepatica (a laxative salt) and

Ipana (the first-ever disinfectant toothpaste).

Marriott19

Year founded: 1927

Founder(s): J. Wil ard Marriott (age 26), Al ie Marriott (age 22) Location: Washington, DC

Founding Concept: To be in business for themselves. Began with a nine-seat A&W root beer stand. To attract additional business, they added hot food (mostly Mexican) and named the restaurant the Hot Shoppe.

Initial Results: Built on sixteen-hour days, the store proved profitable during the first year, with $16,000 gross receipts. By 1929, had expanded to

three outlets running twenty-four hours per day. Expanded to Baltimore in 1931. Had eighteen Hot Shoppes by 1940.

Howard Johnson20

Year founded: 1925

Founder(s): Howard Johnson (age 27)

Location: Wol aston, MA

Founding Concept: Acquired a soda fountain and adopted his mother’s ice-cream formula, which proved a hit with New Englanders.

Initial Results: Within six months, demand exceeded his production capacity. By 1928, ice-cream sales reached $240,000. In 1933, he expanded to the famous roadside orange-tiled restaurants. Built to 125 units by 1940.

Other Comments: Once Howard Johnson had the basic concept of his road restaurants down, he expanded and ful y capitalized on that idea to the ful est.

Merck21

Year founded: 1891

Founder(s): George Merck (age 23)

Location: New York City, NY

Founding Concept: Sales branch for German chemical company, E.

Merck. Traces roots back to Merck family apothecary in Darmstadt, Germany, 1668.

Initial Results: Solid sales success ($1 mil ion by 1897) of imported chemicals from parent company; didn’t manufacture its own chemicals until its second decade of life. Began manufacturing iodides and other staple

pharmaceuticals at new facility in Rahway, New Jersey, in about 1903. Revenue in 1910 $3 mil ion.

Pfizer22

Year founded: 1849

Founder(s): Charles Pfizer (age 25) and Charles Erhart (age 28) Location: Brooklyn, NY

Founding Concept: Manufacture of high-quality chemicals not then produced in the United States, thus leveraging off a tariff advantage o ve r imports; first product was Santonin, a compound to combat parasitic worms.

Initial Results: Santonin appears to have sold wel , giving the company a basis for expansion; in 1855, the company began manufacturing iodine-based products, and by 1860 the company manufactured at least five product lines. In 1857 the company opened an office in downtown Manhattan and between 1857 and 1888 Pfizer purchased seventy-two lots of land for expansion.

Motorola23

Year founded: 1928

Founder(s): Paul V. Galvin (age 33) Location: Chicago, IL

Founding Concept: Battery eliminators for radios, including a repair business for Sears, Roebuck radio battery eliminators that came back t o Sears for service under warranty. Galvin “knew that the eliminator was not going to provide a market for very long,” so he began looking early for other markets.

Initial Results: The company kept itself barely alive in the first year on the eliminator manufacture and repair business. Almost bankrupt at the end of 1929. Conceived of car radio concept in 1930. Lost money in 1930, then became profitable in 1931 and grew steadily from then on.

Zenith24

Year founded: 1923

Founder(s): Eugene F. MacDonald (age 37)

Location: Chicago, IL

Founding Concept: Sales and marketing of radios to capitalize on the emerging radio industry (commercial radio broadcasts began in 1920, and radios were in short supply); in 1923, took out an exclusive license to sel radios made by the Chicago Radio Lab; in 1924, introduced the world's first portable radio.

Initial Results: Early innovations fueled sales growth (1924: first portable radio; 1926: first home radio to operate from an AC outlet; 1927: first push-button tuning). Lax asset management, however, led to liquidity and credit problems in the mid-1920s.

Nordstrom25

Year founded: 1901

Founder(s): John Nordstrom (age 30), Carl Wal in (age unknown) Location: Seattle, WA

Founding Concept: In the words of John Nordstrom: "I was stil not certain what I wanted to do.... I started looking around for some smal business to get into. Mr. Wal in was a shoemaker by trade and ... had set up a shoe repair shop.... I often visited Mister Wal in in his shop and one day he suggested that we join a partnership and open a shoe store."

Initial Results: Became profitable early. Changed location three times in the first fifteen years, but remained a single-unit business until 1923, when the partners added a second store.

Other Comments: John Nordstrom sold out his share of the company to two of his sons (Everett and Elmer) in 1928.

Melville26

Year founded: 1892

Founder(s): Frank Melvil e (age unknown)

Location: New York, NY

Founding Concept: Frank Melvil e, a traveling shoe wholesaler, acquired three shoe stores “when the owner skipped town without paying Melvil e for a shipment of shoes.”

Initial Results: Appears to have been profitable from early on. Began expanding into a chain concept in 1895. By 1923 it had 31 retail outlets; by 1935 it had 571 retail outlets. Largest retailer of shoes in the United States by the early 1930s.

Procter & Gamble27

Year founded: 1837

Founder(s): Wil iam Procter (age 36) and James Gamble (age 34) Location: Cincinnati, OH

Founding Concept: Procter, a candle-maker, and Gamble, a soapmaker, relied on the same animal fat raw materials to make their

products; as brothers-in-law, they decided to pool their efforts and formed a partnership to sel soap and candles.

Initial Results: The company grew slowly, requiring fifteen years before outgrowing their modest office, production facility, and store on

“Main Street, 2nd door off Sixth Street.” Although not spectacular in growth, the company appears to have been profitable; in 1847, the company earned $20,000. Two decades after founding, the company employed eighty factory workers.

Other Comments: At its founding, P&G was one of eighteen companies that sold soap and/or candles in Cincinnati.

Colgate28

Year founded: 1806

Founder(s): Wil iam Colgate (age 23)

Location: New York, NY

Founding Concept: According to Colgate's chairman in 1956, "At that period in American history [1806], at least 75 percent of the soap used was home made.... Soap made at home was crude, coarse, rough to the skin, and hardly pleasant in aroma. Wil iam Colgate undertook to make a soap that would be pleasant to the senses and yet available to the average person."

Initial Results: Little information available; no indication that the company was significantly more or less successful than P&G during its first two decades of life.

Other Comments: One of the first companies in the United States to manufacture soap for sale.

Philip Morris29

Year founded: 1847

Founder(s): Philip Morris (age unknown)

Location: London, England

Founding Concept: Tobacco shop on Bond Street in London.

Initial Results: Remained a simple retail shop until 1854, when Philip Morris began making cigarettes. Little indication of substantial early growth. Introduced its cigarettes in the United States in 1902.

American investors purchased rights to the Philip Morris name in 1919.

Other Comments: Marlboro brand introduced as a women's cigarette in 1924.

R.J. Reynolds30

Year founded: 1875

Founder(s): Richard J. Reynolds (age 25)

Location: Winston, NC

Founding Concept: To develop and sel chewing tobacco based on a newly developed "flue-cured leaf that made the best chewing tobacco."

Initial Results: In the first year of operations, his company turned out 150,000 pounds of product. "From then on, about every other year, a new addition had to be made to the factory to keep up with a nation of chewers." By the mid-1880s, R.J. Reynolds had amassed a personal fortune in excess of $100,000.

Other Comments: Introduced Camel brand cigarettes in 1913; became No. 1 U.S. brand by 1917.

Sony31

Year founded: 1945

Founder(s): Masaru Ibuka (age 37)

Location: Tokyo, Japan

Founding Concept: No clear idea other than the vague concept to

apply technology to the creation of consumer products.

Initial Results: Struggled with a failed rice cooker, failed tape recorder system; stayed alive via crude heating pads and then a hodgepodge o f products on contract for Japan Broadcasting, such as voltmeters and control

consoles for studios. Developed first hit consumer product (pocket radio) in 1955. Took a dozen years to reach five hundred employees.

Kenwood32

Year founded: 1946

Founder(s): Not listed in history

Location: Komagane City, Japan

Founding Concept: To be a specialist pioneer in audio technology.

Initial Results: Quickly established itself as a leader in audio technology. Its first products, specialized radio components, were successful and immediately established the company. Its high-frequency transformer is the first product made in Japan to pass the approval standards of the Japan Broadcasting Corporation (1949).

Wal-Mart33

Year founded: 1945

Founder(s): Sam Walton (age 27)

Location: Newport, AR

Founding Concept: Acquired a franchise license for a single-unit Ben Franklin five-and-dime store in a smal town; no evidence of plans to be anything than a single-unit outlet.

Initial Results: First year sales: $80,000; third year sales $225,000.

Lost his lease in 1950, and thereby lost his store. Moved to Bentonville, Arkansas, and opened a smal five-and-dime store he cal ed “Walton’s.” Expanded to two units in 1952.

Other Comments: Opened first large-scale rural discount store in 1962.

Ames34

Year founded: 1958

Founder(s): Milton Gilman (age 33) and Irving Gilman (age unknown)
Location: Southbridge, MA

Founding Concept: Mortgaged family farm specifical y to launch discount retailing chain in smal towns.

Initial Results: First-year sales $1 mil ion; within two years, Ames expanded to multi-unit chain in New York and Vermont.

Other Comments: Opened first large-scale rural discount store in 1958.

Walt Disney35

Year founded: 1923

Founder(s): Walter E. Disney (age 21), Roy O. Disney (age 27) Location: Los Angeles, CA

Founding Concept: Walt moved from Kansas City to Los Angeles to get into the movie business, but could not land a job, so he rented a camera, made an animation stand, set up a studio in his uncle's garage, and decided to go into the animation business for himself.

According to Disney biographer Schickel, "He was at least halfway convinced that he was too late, by perhaps six years, to break into animation, but [it] was the only area in which he had any prior experience."

Initial Results: First film series (Alice) provided barely enough cash flow (due to frugal expenses) to keep going. Second product (Oswald the Rabbit, 1927) did better, but lost control of product in bad business arrangement. In 1928, he introduced Micky Mouse.

Columbia Pictures36

Year founded: 1920

Founder(s): Harry Cohn (age 29) and Jack Cohn (age unknown) Location: Los Angeles, CA

Founding Concept: Harry and Jack Cohn founded the company in 1920 initial y to make cartoons and short films to show the off-screen activities of movie stars and publicize the current pictures of the stars.

Then moved into ful -length feature films.

Initial Results: Only moderate success with the initial shorts concept.

First feature-length films more successful: $130,000 income for cost of $20,000 on first ful -length feature; between August 1922 and December 1923, the company produced ten profitable ful -length feature movies.

Founding Roots Summary	Founded with a "Great Idea"?*		Which company had greater initial success during the entrepreneurial phase: Visionary or Comparison?
	Visionary	Comparison	
3M vs. Norton	No	Yes	Comparison Company
American Express vs. Wells Fargo	No	No	Visionary Company
Boeing vs. McDonnell Douglas	No	Yes	Comparison Company
Citicorp vs. Chase	No	No	Indistinguishable
Ford vs. GM	Yes	No	Visionary Company
GE vs. Westinghouse	Yes	Yes	Indistinguishable
HP vs. TI	No	Yes	Comparison Company
IBM vs. Burroughs	No	Yes	Comparison Company
Johnson & Johnson vs. Bristol-Myers	Yes	No	Visionary Company
Marriott vs. Howard Johnson	No	No	Indistinguishable
Merck vs. Pfizer	No	Yes	Indistinguishable
Motorola vs. Zenith	No	Yes	Comparison Company
Nordstrom vs. Melville	No	No	Comparison Company
Procter & Gamble vs. Colgate	No	Yes	Indistinguishable
Philip Morris vs. R.J. Reynolds	No	Yes	Comparison Company
Sony vs. Kenwood	No	Yes	Comparison Company
Wal-Mart vs. Ames	No	Yes	Comparison Company
Walt Disney vs. Columbia	No	No	Comparison Company
Overall	3 Yes 15 No	11 Yes 7 No	3 Visionary Company 5 Indistinguishable 10 Comparison Company

*Defined as a specific, innovative, and highly successful product or service.

APPENDIX 2 NOTES

The pagination of this electronic edition does not match the edition from which it was created. To locate a specific passage, please use the search feature of your e-book reader.

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Appendix 3

TABLES

Table A.1

Categories Tracked Across the Entire History

(From Founding Date to 1991) of the Visionary and Comparison Companies in our Research

Study

Category 1: Organizing Arrangements. “Hard” items, such as organization structure, policies and procedures, systems, rewards and incentives, ownership structure, and general business strategies and activities of the company (e.g., acquisitions, significant changes in strategy, going public).

Category 2: Social Factors. “Soft” items, such as the company’s cultural practices, atmosphere, norms, rituals, mythology and stories, group dynamics, and management style.

Category 3: Physical Setting. Significant aspects of the way the company handled physical space, such as plant and office layout or new facilities. This included any significant decisions regarding the geographic location of key parts of the company.

Category 4: Technology. How the company used technology: information

technology,

state-of-the-art

processes

and

equipment, advanced job configurations, and related items.

Category 5: Leadership. Leadership of the firm since its inception: the transition between key early shapers of the organization and later generations, leadership tenure, the length of time the leaders were with the organization before becoming

CEO (Were they brought in from the outside or grown from within? When did they join?), leadership selection processes and criteria.

Category 6: Products and Services. Significant products and services in the company’s history. How did the product or service ideas come about? What guided their selection and development? Did the company have any product

failures, and how did it deal with them? Did the company lead with new products or fol ow in the marketplace?

Category 7: Vision: Core Values, Purpose, and Visionary Goals. Were these variables present? If yes, how did they come into being? Did the organization have them at certain points in its history and not others? What role did they play? If it had strong values and purpose, did they remain intact or become diluted? Why?

Category 8: Financial Analysis. Ratio and spreadsheet analysis of al income statements and balance sheets for every year going back to the date when the company became public: sales and profit growth, gross margins, return on assets, return on sales, return on equity, debt to equity ratio, cash flow and working capital, liquidity ratios, dividend payout ratio, increase in gross property plant and equipment as a percentage of sales, asset turnover. We also examined stock returns and overal stock performance relative to the market.

Category 9: Markets/Environment. Significant aspects of the company's external environment: major market shifts, dramatic national or international events, government regulations, industry structural issues, dramatic technology changes, and related items.

Table A.2

Sources of Information in Our Research Study

• Historical materials obtained directly from the companies: archive materials, historical documents (such as prospectuses from when the company went public), historical descriptions, internal publications, video footage, transcripts of interviews and speeches of alive and deceased leaders, corporate policy documents, historical and current vision (values, purpose, mission) statements, employee handbooks, training and socialization materials, and related materials.

• Books written about the industry, the company, and/or its leaders published either by the company or by outside observers. (We placed more weight on books written by outsiders). We obtained al books (old and new)

available through the unified catalog of library listings at Stanford, University of California, Harvard, Yale, and Oxford.

• Articles written about the company. We did extensive literature searches from the time of the company's founding up to the present and examined all major articles on each company through the decades from broad sources such as Forbes, Fortune, Business Week, Wall Street Journal, Nation's Business, New York Times, U.S. News, New Republic, Harvard Business Review, The Economist, and selected articles from industry or topic specific sources such as Discount Merchandiser, Marketing, and Hotel and Restaurant Quarterly.

• Corporate annual reports and financial statements. In some cases, this involved nearly a hundred separate income statements and balance sheets for a single company.

• Harvard and Stanford Business School case studies and industry analyses. We obtained every available business case study on each company and each industry in our study.

• Financial databases, including the University of Chicago Center For Research in Security Prices (CRSP) Market Index Database, which gave us monthly stock returns for every company dated back to when first available.

• Interviews with key major figures, employees, ex-employees, and outside "experts" about the company or the industry (e.g., analysts and academics).

• Business and industry reference materials, such as the Biographical Dictionary of American Business Leaders,

the International

Directory of Company Histories, Hoover's Handbook of Companies, Development of American Industries, and Movie Industry Almanac.

Table A.3

Leadership* as a Distinguishing Variable During Formative Stages?

* Leadership is defined as top executive(s) who displayed high levels of persistence, overcame significant obstacles, attracted dedicated people, influenced groups of people toward the achievement of goals, and played key roles in guiding their companies through crucial episodes in their history. NOTE: In selecting dates, we tried to cover the period during which the executive stil had significant influence over the direction of the company; in some cases, the executive held numerous titles over the course of time—for example, president, CEO, chairman, and general manager. The point of this table is to show that both the visionary and comparison companies had such people during formative stages of evolution and, therefore, leadership so defined does not show up as a distinguishing variable.

Pair	Visionary Company	Comparison Company	Distinguishing Variable?
3M vs. Norton	William McKnight (1914–1966)	Milton Higgins (1855–1912)	No
American Express vs. Wells Fargo	Henry Wells and William Fargo (1850–1868)	Henry Wells and William Fargo (same people) (1852–1860s)	No
Boeing vs. McDonnell Douglas	William Boeing (1916–1934)	Donald Douglas (1920–1967) James McDonnell (1939–1980)	No
Citicorp vs. Chase	James Stillman (1891–1918)	Albert Wiggin (1911–1933)	No
Ford vs. GM	Henry Ford, I (1899–1945)	Alfred P. Sloan (1923–1946)	No
GE vs. Westinghouse	Charles Coffin (1892–1922)	George Westinghouse (1866–1909)	No

Hewlett-Packard vs. Texas Instruments	Dave Packard and William Hewlett (1937–)	Eugene McDermott (1930–1948) Pat Haggarty (1958–1976)	No
IBM vs. Burroughs	Thomas J. Watson (1914–1956)	Joseph Boyer (1898–1930)	No
J & J vs. Bristol-Myers	R W Johnson (1886–1910)	William Bristol (1887–1915)	No
Marriott vs. Howard Johnson	J. Willard Marriott (1927–1964)	Howard Johnson (1925–1959)	No
Merck vs. Pfizer	George Merck (1895–1925)	Charles Pfizer (1849–1906)	No
Motorola vs. Zenith	Paul Galvin (1926–1956)	Commander Eugene F. McDonald, Jr. (1923–1958)	No
Nordstrom	John Nordstrom (1901–1928)	Frank Melville (1892–1930)	No
Procter & Gamble vs. Colgate	William Procter and James Gamble (1837–1870s)	William Colgate (1806–1857)	No
Philip Morris vs. R.J. Reynolds	None Evident	R.J. Reynolds (1875–1918)	Perhaps in favor of the comparison company
Sony vs. Kenwood	Masaru Ibuka (1945–)	Not enough information	Not enough information
Wal-Mart vs. Ames	Sam Walton (1945–1992)	Gilman Brothers (1958–1981)	No
Walt Disney vs. Columbia	Walt Disney (1923–1966)	Harry Cohn (1920–1958)	No

Table A.4

Evidence of Core Ideology

METHOD: In assessing the ideological nature of the visionary and comparison companies, we considered evidence along each of the fol owing dimensions:

A: Statements of Ideology

B: Historical Continuity of Ideology

C: Ideology Beyond Profits

D: Consistency Between Ideology and Actions

In each category, we gave each visionary and comparison company a rating based on the evidence we had available. We then calculated an overal index based on a summation of the company's ratings across these dimensions, scoring each "H" as a 3, each "M" as a 2, and each "L" as a 1.

A: Statements of Ideology

H: Significant evidence that the company stated an ideology (core values and/or purpose as per our definitions) with the intent to use the ideology as a source of guidance. Evidence that key members of the company spoke and/or wrote about the ideology more than a few times and that the ideology was communicated widely to people throughout the organization.

M: Some evidence that the company stated an ideology (core values and/or purpose as per our definitions) with the intent to use the ideology as a source of guidance.

Some evidence that key members of the company spoke and/or wrote about the ideology, but perhaps only

once or a few times, and some evidence that the ideology was communicated to people in the organization, but less than those that

received an “H” on this dimension.

L: Little or no evidence that the company made any serious attempt to clarify and declare an ideology (core values and/or purpose as per our definitions).

B: Historical Continuity of Ideology

H: Evidence that the stated ideology discussed in Part A has changed little and has been continual y emphasized throughout the company’s history since the time the ideology was first articulated.

M: Evidence that the stated ideology discussed in Part A has changed substantial y and/or that the company has been sporadic in its references to the ideology through its history since the ideology was first articulated.

L: Little evidence of any continuity of an ideology through the history of the company.

C: Ideology Beyond Profits

H: Evidence of explicit discussions about the role of profitability or shareholder wealth as being only a part of the company’s objectives, and not the primary driving objective. Explicit use of phrases like “reasonable”

returns, “adequate” returns, “fair” returns, “profitability as a necessary condition to pursue other aims,” rather than

“maximal” or “highest” returns.

M: Evidence that profitability and shareholder returns are highly important —equal to or greater than other aims and values. Ideological concerns are also important, but noticeably less so (relative to profit motives) than the

companies that receive an “H” on this dimension.

L: Evidence that the company is highly profit or shareholder wealth oriented with ideological concerns deeply subordinated to making money.

Evidence that the company sees maximizing wealth as the reason for existence and number one goal far ahead of any other concerns.

D: Consistency Between Ideology and

Actions

H: Significant evidence that the company's ideology has been more than words on paper. Significant evidence (consistently throughout the company's history) of major strategic (such as product, market, or investment) and/or organization design decisions (such as structure, incentive systems, policies) being guided by and consistent with the stated ideology.

M: Some evidence that the company's ideology has been more than words on paper. Some evidence of major strategic

(product,

market,

investment)

and/or

organization design decisions (structure, incentive systems, policies) being guided by and consistent with the stated ideology or that this has been less consistent through history than for those companies that receive an

"H" on this dimension.

L: Little evidence of any guidance by the ideology and consistency between stated ideologies and corporate actions.

Visionary Companies	"A"	"B"	"C"	"D"	Index Score	Total Delta	Index Score	"A"	"B"	"C"	"D"	Comparison Companies
3M	H	H	M	H	11.00	3.00	8.00	M	M	M	M	Norton
American Express	M	M	M	M	8.00	2.00	6.00	M	L	L	M	Wells Fargo
Boeing	H	H	M	H	11.00	5.00	6.00	M	L	L	M	McDonnell

Boeing	H	H	M	H	11.00	9.00	6.00	M	L	L	M	McDonnell Douglas
Citicorp	M	M	M	M	8.00	0.00	8.00	M	L	H	M	Chase Manhattan
Ford	H	M	H	M	10.00	4.00	6.00	M	L	L	M	GM
General Electric	H	M	M	M	9.00	2.00	7.00	M	L	M	M	Westing-house
Hewlett-Packard	H	H	H	H	12.00	6.00	6.00	M	L	L	M	Texas Instruments
IBM	H	H	M	M	10.00	6.00	4.00	L	L	L	L	Burroughs
Johnson & Johnson	H	H	H	H	12.00	5.00	7.00	M	L	M	M	Bristol-Myers Squibb
Marriott	H	H	H	H	12.00	6.00	6.00	M	L	M	L	Howard Johnson
Merck	H	H	H	H	12.00	5.00	7.00	M	L	M	M	Pfizer
Motorola	H	H	H	H	12.00	5.00	7.00	M	L	M	M	Zenith
Nord-strom	H	H	M	H	11.00	3.00	8.00	M	M	M	M	Melville
Philip Morris	M	L	M	H	8.00	1.00	7.00	M	L	M	M	RJR Nabisco
Procter & Gamble	H	H	M	H	11.00	3.00	8.00	H	L	M	M	Colgate
Sony	H	H	H	H	12.00	5.00	7.00	M	L	M	M	Kenwood
Wal-Mart	M	H	M	H	10.00	6.00	4.00	L	L	L	L	Ames
Walt Disney	H	H	M	H	11.00	7.00	4.00	L	L	L	L	Columbia
Frequency Counts												
No. of *Hs*	14	13	7	13				1	0	1	0	
No. of *Ms*	4	4	11	5				14	2	10	14	
No. of *Ls*	0	1	0	0				3	16	7	4	
Total	18	18	18	18				18	18	18	18	
VC > CC	14	17	12	14		17						
VC = CC	4	1	5	4		1						
VC < CC	0	0	1	0		0						
Total	18	18	18	18		18						

Table A.5

Evidence of BHAGs

METHOD: In assessing the use of BHAGs in the visionary and comparison companies, we considered evidence along each of the fol owing dimensions:

A: Use of BHAGs

B: Audacity of BHAGs

C: Historical Pattern of BHAGs

In each category, we gave each visionary and comparison company a

rating based on the evidence we had available. We then calculated an overal index based on a summation of the company's ratings across these dimensions, scoring each "H" as a 3, each "M" as a 2, and each "L" as a 1.

A: Use of BHAGs

H: Significant evidence that the company used BHAGs to stimulate progress.

M: Some evidence that the company used BHAGs to stimulate progress, but less clear or prominent than those that received an "H."

L: Little or no evidence that the company made any serious use of BHAGs in its history.

B: Audacity of BHAGs

H: Significant evidence that the BHAGs used were highly

"audacious" (evidence that they were very difficult to achieve and/or highly risky).

M: Evidence that the BHAGs used were "audacious," but significantly less risky or difficult to achieve than those that received an "H" on this dimension.

L: Little evidence that goals were highly audacious.

C: Historical Pattern of BHAGs

H: Evidence that the company had a repetitive historical pattern of BHAGs, or set BHAGs that transcended through multiple generations of leadership.

M: Less evidence (than those that received an “H”) of a repetitive historical pattern of BHAGs, or use of BHAGs that transcended through multiple generations of

Visionary Companies	"A"	"B"	"C"	Index Score	Total Delta	Index Score	"A"	"B"	"C"	Comparison Companies
3M	M	M	L	5.00	0.00	5.00	M	M	L	Norton
American Express	M	M	L	5.00	1.00	4.00	M	L	L	Wells Fargo
Boeing	H	H	H	9.00	4.00	5.00	M	M	L	McDonnell Douglas
Citicorp	H	H	H	9.00	4.00	5.00	M	M	L	Chase Manhattan
Ford	H	H	M	8.00	1.00	7.00	H	H	L	GM
General Electric	H	H	M	8.00	1.00	7.00	H	H	L	Westing-house
Hewlett-Packard	M	H	L	6.00	-2.00	8.00	H	H	M	Texas Instruments
IBM	H	H	M	8.00	5.00	3.00	L	L	L	Burroughs
Johnson & Johnson	M	M	M	6.00	0.00	6.00	M	M	M	Bristol-Myers Squibb
Marriott	H	M	M	7.00	3.00	4.00	M	L	L	Howard Johnson
Merck	H	H	M	8.00	2.00	6.00	M	M	M	Pfizer
Motorola	H	H	H	9.00	3.00	6.00	H	M	L	Zenith
Nord-strom	M	M	M	6.00	0.00	6.00	M	M	M	Melville
Philip Morris	H	H	L	7.00	1.00	6.00	M	M	M	RJR Nabisco
Procter & Gamble	H	H	M	8.00	2.00	6.00	M	M	M	Colgate
Sony	H	H	H	9.00	4.00	5.00	M	M	L	Kenwood
Wal-Mart	H	H	H	9.00	4.00	5.00	M	M	L	Ames
Walt Disney	H	H	M	8.00	3.00	5.00	M	M	L	Columbia
Frequency Counts										
No. of *Hs*	13	13	5				4	3	0	

No. of *Ms*	5	5	9		13	12	6
No. of *Ls*	0	0	4		1	3	12
Total	18	18	18		18	18	18
VC > CC	10	12	10	14			
VC = CC	7	6	6	3			
VC < CC	1	0	2	1			
Total	18	18	18	18			

leadership.

L: Little evidence of a historical pattern of BHAGs in its history.

Table A.6

Evidence of Cultism

METHOD: In assessing cultism in the visionary and comparison companies, we considered evidence indicating that the company seeks to create an intense sense of loyalty and dedication and to

influence the behavior of those inside the company to be consistent with the company's ideology. We examined evidence along three key dimensions of cultlike environments:

A: Indoctrination

B: Tightness of Fit

C: Elitism.

In each category we gave each visionary and comparison company a rating based on the evidence we had available. We then calculated an overal index based on a summation of the company's ratings across these dimensions, scoring each "H" as a 3, each "M" as a 2, and each "L" as a 1.

A: Indoctrination

H: Significant evidence that the company has a history of formal and/or tangible employee indoctrination processes. These processes might include:

— Orientation programs that teach such things as values, behavioral norms, corporate ideology, history, and tradition

— Ongoing “training” that has ideological content

— Internal publications: books, newspapers, and periodicals that reinforce ideology

— “On-the-job” ideological socialization by peers, immediate supervisors, and others

— Members of the company becoming the primary social group for new employees; employees being encouraged to socialize primarily with other employees

— Singing corporate songs, yel ing corporate cheers

— Exposure to a mythology of “heroic deeds” by exemplar employees

— Use of unique language and terminology that reinforces a frame of reference

— Making pledges or affirmations

— Hiring young, promoting from within, shaping the employee’s mind-set from a young age; everyone starting at the bottom, so as to force people to “grow up” in the ideology M: Some evidence that the company has a long history of formal and tangible employee indoctrination processes around the core ideology, but less prominent and/or less historical y consistent than those that received an “H.”

L: Little or no evidence that the company has a long history of formal and/or tangible employee indoctrination processes around the core ideology.

B: Tightness of Fit

H: Significant evidence that the company has historical y imposed

“tightness of fit”—people tend to either fit wel with the company or tend to not fit at al ; the boundaries of “fit” are very tight (especial y with respect to the company’s ideology). The company uses a variety of tangible methods to enforce tightness of fit, which might include:

— Tangible recognition and rewards for those who fit and tangible negative reinforcement and penalties for those who don’t fit (those who fit seem to be happy, rewarded, valued; those who don’t fit seem to be unhappy, unvalued, “left behind”)

— Tolerance for mistakes that do not breach the company’s ideology (“non-sins”); severe penalties for those who breach the ideology (“sins”)

— Tight screening processes, either during hiring or within the first few years

— Severe expectations of loyalty; penalties and/or sense of betrayal for perceived “lack of loyalty”

— Overtight behavioral norms and intrusive behavior control which tends to repel those who don’t fit

— Expectations of zealousness of behavior and espousement of the ideology

— Seeking buy-in (as in financial or time investment) which wil tend to repel those not wil ing to ful y “join”

M: Some evidence that the company has historical y imposed

“tightness of fit,” but less prominent and/or less historical y consistent than those that received an “H.”

L: Little or no evidence that the company has historical y imposed

“tightness of fit.”

C: Elitism

H: Significant evidence that the company has historical y reinforced a sense of belonging to something special and superior. Both parts of this are important—belonging and specialness. This can be reinforced in a variety of ways, such as:

— Continual verbal and written emphasis on being part of a special group, the elites

— An obsession with secrecy and control over information, especial y in regard to the outside world

— Celebrations to reinforce successes, belonging, and specialness

— Use of names (“Motorolans,” “Nordies,” “Proctoids,” “Cast Members”) and special language to reinforce being part of a special group

— Lots of emphasis on a “family feeling”—al belonging to “a big, happy family”

— Physical isolation; that is, the company has its own facilities (post offices, restaurants, health clubs, social gathering places) that minimize the need for employees to deal with the outside world

M: Less evidence (than those that received an “H”) that the

Visionary Companies	"A"	"B"	"C"	Index Score	Total Delta	Index Score	"A"	"B"	"C"	Comparison Companies
3M	M	H	H	8.00	2.00	6.00	M	M	M	Norton
American Express	L	M	M	5.00	0.00	5.00	L	M	M	Wells Fargo
Boeing	M	M	H	7.00	2.00	5.00	M	L	M	McDonnell Douglas
Citicorp	M	M	H	7.00	0.00	7.00	M	M	H	Chase Manhattan
Ford	M	M	H	7.00	0.00	7.00	M	M	H	GM
General Electric	H	M	H	8.00	4.00	4.00	L	L	M	Westing-house
Hewlett-Packard	H	H	H	9.00	2.00	7.00	H	M	M	Texas Instruments

IBM	H	H	H	9.00	5.00	4.00	L	L	M	Burroughs
Johnson & Johnson	H	M	H	8.00	2.00	6.00	M	M	M	Bristol-Myers Squibb
Marriott	H	H	H	9.00	3.00	6.00	M	M	M	Howard Johnson
Merck	H	H	H	9.00	4.00	5.00	L	M	M	Pfizer
Motorola	H	M	M	7.00	3.00	4.00	L	L	M	Zenith
Nord-strom	H	H	H	9.00	4.00	5.00	L	M	M	Melville
Philip Morris	M	M	M	6.00	0.00	6.00	M	M	M	RJR Nabisco
Procter & Gamble	H	H	H	9.00	3.00	6.00	M	M	M	Colgate
Sony	H	M	H	8.00	3.00	5.00	M	L	M	Kenwood
Wal-Mart	H	M	H	8.00	4.00	4.00	L	L	M	Ames
Walt Disney	H	H	H	9.00	5.00	4.00	L	M	L	Columbia
Frequency Counts										
No. of *Hs*	12	8	15				1	0	2	
No. of *Ms*	5	10	3				9	12	15	
No. of *Ls*	1	0	0				8	6	1	
Total	18	18	18				18	18	18	
VC > CC	11	13	13		14					
VC = CC	7	5	5		4					
VC < CC	0	0	0		0					
Total	18	18	18		18					

company has historical y reinforced a sense of belonging to something special and superior.

L: Little or no evidence that the company has historical y reinforced a sense of belonging to something special and superior.

Table A.7

Evidence of Purposeful Evolution

METHOD: In assessing the use of evolutionary progress in the visionary and comparison companies, we considered evidence col ected in the course of our study that would indicate purposeful evolution to stimulate progress. We examined evidence along three dimensions: A: Conscious Use of Evolutionary Progress

B: Operational Autonomy to Stimulate and Enable Variation C: Other Mechanisms to Stimulate and Enable Variation and Selection In each category we gave each visionary and comparison company a rating based on the evidence we had available. We then calculated an overal index based on a summation of the company's ratings across these dimensions, scoring each "H" as a 3, each "M" as a 2, and each "L" as a 1.

A: Conscious Use

H: Significant evidence that the company has a history of consciously embracing the concept of making progress by an evolutionary process of variation and selection. Although the company might also embrace other forms of progress (such as BHAGs, or self-improvement), it must also have made conscious use of evolutionary processes. Evidence that the company has, in fact, made some significant strategic shifts and moves stemming from use of this type of progress.

M: Some evidence that the company has a history of consciously embracing the concept of making progress by an evolutionary process of variation and selection, but less prominent and/or less historical y consistent conscious adoption than those that

received an "H."

L: Little or no evidence that the company has a history of consciously embracing the concept of making progress by an evolutionary process of variation and selection.

B: Operational Autonomy

H: Significant evidence that the company has made historical use of operational autonomy as a means of enabling variation.

Operational autonomy means that employees have wide personal discretion in how to go about fulfil ing their responsibilities via decentralized organization structures and job designs that enable operational freedom.

M: Some evidence that the company has made historical use of operational autonomy as a means of enabling variation, but less prominent and/or less historical y consistent conscious adoption than those that received an “H.”

L: Little or no evidence that the company has made historical use of operational autonomy as a means of enabling variation.

C: Other Mechanisms

H: Significant evidence that the company has a history of using a variety of mechanisms other than operational autonomy to stimulate and enable evolutionary progress via variation and selection. These mechanisms can be designed to stimulate creativity and new ideas, experimentation, opportunism (quick, vigorous action in response to unexpected opportunities), lack of penalties (or actual rewards) for mistakes, rewards for innovations and new directions, individual initiative, and incentives for creating new opportunities for the organization.

M: Some evidence that the company has a history of using a variety of mechanisms to stimulate and enable evolutionary progress via variation and selection, but less prominent and/or

Visionary Companies	"A"	"B"	"C"	Index Score	Total Delta	Index Score	"A"	"B"	"C"	Comparison Companies
3M	H	H	H	9.00	5.00	4.00	L	M	L	Norton
American Express	H	M	M	7.00	2.00	5.00	M	M	L	Wells Fargo
Boeing	M	M	L	5.00	2.00	3.00	L	L	L	McDonnell Douglas
Citicorp	M	H	M	7.00	3.00	4.00	M	L	L	Chase Manhattan
Ford	M	M	M	6.00	0.00	6.00	M	M	M	GM
General Electric	M	M	M	6.00	1.00	5.00	M	M	L	Westing-house
Hewlett-Packard	H	H	H	9.00	3.00	6.00	M	M	M	Texas Instruments
IBM	M	M	M	6.00	3.00	3.00	L	L	L	Burroughs

Johnson & Johnson	H	H	M	8.00	2.00	6.00	M	M	M	Bristol-Myers Squibb
Marriott	H	M	M	7.00	3.00	4.00	M	L	L	Howard Johnson
Merck	M	M	M	6.00	-2.00	8.00	H	H	M	Pfizer
Motorola	H	H	H	9.00	5.00	4.00	M	L	L	Zenith
Nord-strom	M	H	L	6.00	0.00	6.00	M	H	L	Melville
Philip Morris	M	M	L	5.00	1.00	4.00	M	L	L	RJR Nabisco
Procter & Gamble	M	M	L	5.00	1.00	4.00	M	L	L	Colgate
Sony	H	H	M	8.00	2.00	6.00	M	M	M	Kenwood
Wal-Mart	H	H	H	9.00	6.00	3.00	L	L	L	Ames
Walt Disney	M	L	M	5.00	1.00	4.00	M	L	L	Columbia
Frequency Counts										
No. of *Hs*	8	8	4				1	2	0	
No. of *Ms*	10	9	10				13	7	5	
No. of *Ls*	0	1	4				4	9	13	
Total	18	18	18				18	18	18	
VC > CC	10	12	10		15					
VC = CC	7	5	8		2					
VC < CC	1	1	0		1					
Total	18	18	18		18					

less historical y consistent conscious adoption than those that received an "H."

L: Little or no evidence that the company has a history of using a variety of mechanisms to stimulate and enable evolutionary progress via variation and selection.

Table A.8

Evidence of Management Continuity

METHOD: In assessing management continuity in the visionary and comparison companies, we considered evidence along the fol owing dimensions:

A: Internal Versus External Chief Executives

B: No “Post-Heroic-Leader Vacuum” or “Savior Syndrome”

C: Formal Management Development Programs and Mechanisms D: Careful Succession Planning and CEO Selection Mechanisms.

In each category we gave each visionary and comparison company a raring based on the evidence we had available. We then calculated an overal index based on a summation of the company’s ratings across these dimensions, scoring each “H” as a 3, each “M” as a 2, and each “L” as a 1.

A: Internal/External

H: Significant evidence that the company has a history of selecting chief executive officers only from inside.

M: Evidence that the company has a history of selecting chief executive officers primarily from inside, but one or two deviations from this rule.

L: Evidence that the company has deviated from the “inside only”

rule more than two times.

B: No “Post-Heroic-Leader Vacuum” or “Savior

Syndrome”

H: No evidence that the company has experienced a “Post-heroic-leader vacuum” (a dearth of highly qualified successors after the departure of a strong CEO) or the “Savior Syndrome”

(looking to the outside in times of trouble to find a “savior” who wil come in and revive the company).

M: Evidence that the company has experienced a “Post-heroic-leader vacuum” or the “Savior Syndrome” at least once in its history.

L: Evidence that the company has experienced a “Post-heroic-leader vacuum” or the “Savior Syndrome” at least twice in its history.

C: Management Development Mechanisms

H: Significant evidence that the company has a history of conscious attention to management development via internal management training programs, rotation programs, conscious use of on-the-job experiences to develop managers, exposure to top management issues and thinking, and so on.

M: Some evidence that the company has a history of conscious attention to management development but less prominent and/or less historical y consistent conscious adoption than those that received an “H.”

L: Little or no evidence that the company has a history of conscious attention to management development.

D: Succession Planning and CEO Selection

Mechanisms

H: Significant evidence that the company has a history of careful succession planning and formal CEO selection mechanisms.

M: Some evidence that the company has a history of careful succession planning and formal CEO selection mechanisms, but less prominent and/or less historical y consistent conscious

Visionary Companies	"A"	"B"	"C"	"D"	Index Score	Total Delta	Index Score	"A"	"B"	"C"	"D"	Comparison Companies
3M	H	H	M	H	11.00	3.00	8.00	M	H	L	M	Norton
American Express	H	M	M	M	9.00	3.00	6.00	L	M	M	L	Wells Fargo
Boeing	H	H	M	H	11.00	4.00	7.00	H	M	L	L	McDonnell Douglas

Citicorp	H	H	H	M	11.00	5.00	6.00	L	L	M	M	Chase Manhattan
Ford	H	M	M	M	9.00	0.00	9.00	M	M	H	M	GM
General Electric	H	H	H	H	12.00	5.00	7.00	L	M	M	M	Westing-house
Hewlett-Packard	H	H	H	H	12.00	3.00	9.00	H	M	M	M	Texas Instruments
IBM	H	M	H	M	10.00	4.00	6.00	M	M	L	L	Burroughs
Johnson & Johnson	H	H	H	M	11.00	1.00	10.00	H	H	M	M	Bristol-Myers Squibb
Marriott	H	H	M	M	10.00	4.00	6.00	L	M	L	M	Howard Johnson
Merck	H	H	M	M	10.00	0.00	10.00	H	H	M	M	Pfizer
Motorola	H	H	H	H	12.00	7.00	5.00	M	L	L	L	Zenith
Nord-strom	H	H	M	H	11.00	2.00	9.00	H	M	M	M	Melville
Philip Morris	L	M	M	M	7.00	0.00	7.00	L	M	M	M	RJR Nabisco
Procter & Gamble	H	H	H	H	12.00	6.00	6.00	M	L	M	L	Colgate
Sony	H	H	M	M	10.00	2.00	8.00	M	M	M	M	Kenwood
Wal-Mart	H	H	M	M	10.00	5.00	5.00	M	L	L	L	Ames
Walt Disney	M	L	M	L	6.00	2.00	4.00	L	L	L	L	Columbia
Frequency Counts												
No. of *Hs*	16	13	7	7				5	3	1	0	
No. of *Ms*	1	4	11	10				7	10	10	11	
No. of *Ls*	1	1	0	1				6	5	7	7	
Total	18	18	18	18				18	18	18	18	
VC > CC	12	10	12	10		15						
VC = CC	6	8	5	8		3						
VC < CC	0	0	1	0		0						
Total	18	18	18	18		18						

adoption than those that received an “H.”

L: Little or no evidence that the company has a history of careful succession planning and formal CEO selection mechanisms.

Visionary Companies	No. of CEOs	Average Tenure	No. of Outside CEOs	No. of Outside CEOs	Average Tenure	No. of CEOs	Comparison Companies
3M	12	7.50	0	1	8.92	12	Norton
American Express	9	15.78	0	4	9.33	15	Wells Fargo
Boeing	8	9.63	0	0	14.40	5	McDonnell Douglas
Citicorp	20	9.00	0	4	11.50	10	Chase Manhattan
Ford	5	17.80	0	2	7.00	12	GM
General Electric	7	14.29	0	3	8.15	13	Westinghouse
Hewlett-Packard	3	18.00	0	0	7.75	8	Texas Instruments
IBM	6	13.50	0	1	10.00	10	Burroughs
Johnson & Johnson	7	15.14	0	0	21.00	5	Bristol-Myers Squibb
Marriott	2	32.50	0	3	13.40	5	Howard Johnson
Merck	5	20.20	0	0	13.00	11	Pfizer
Motorola	3	21.33	0	1	11.50	6	Zenith
Nordstrom	3	30.33	0	0	20.00	5	Melville
Philip Morris	12	12.08	3	3	8.36	14	RJR Nabisco
Procter & Gamble	9	17.22	0	1	16.91	11	Colgate
Sony	2	23.50	0	1	11.50	4	Kenwood
Wal-Mart	2	23.50	0	2	8.50	4	Ames
Walt Disney	6	11.50	1	5	9.00	8	Columbia
Averages	6.72	17.38			11.68	8.78	Averages
Totals	121		4	31		158	
No. of CEOs where we have internal versus external data	113					140	
% of Total no. external	3.54%					22.14%	

Table A.8 Backup Data

CEO Statistics

1806–1992

Rank	GE Chief Executive Era	Average Annual Pretax Return on Equity[1]
1	Wilson, 1940–49	46.72%
2	Cordiner, 1950–63	40.49%
3	Jones, 1973–80	29.70%
4	Borch, 1964–72	27.52%
5	Welch, 1981–90[2]	26.29%
6	Coffin, 1915–1921[3]	14.52%
7	Swope/Young 1922–39[4]	12.63%

Rank	Average Annual Cumulative Stock Return Performance Relative to General Market[5]	Rank	Average Annual Cumulative Stock Return Performance Relative to Westinghouse[7]
1	Swope/Young 1929–39[6]	1	Cordiner, 1950–63
2	Welch, 1981–90[6]	2	Jones, 1973–80
3	Cordiner, 1950–63	3	Swope/Young, 1926–39
4	Borch, 1964–72	4	Wilson, 1940–49
5	Wilson, 1940–49	5	Welch, 1981–90[8]
6	Jones, 1973–80	6	Borch, 1964–72

Stock Return Raw Numbers:

Cumulative Stock Returns	No. of Years	GE at Start	GE at End	Market at Start	Market at End	Westinghouse at Start	Westinghouse at End
Swope/Young	13	$1.00	$2.93	$1.00	$1.69	$1.00	$2.83
Wilson	10	$2.93	$4.88	$1.69	$4.22	$2.83	$5.04
Cordiner	14	$4.88	$50.96	$4.22	$31.63	$5.04	$17.60
Borch	9	$50.96	$108.23	$31.63	$68.18	$17.60	$56.39
Jones	8	$108.23	$99.15	$68.18	$89.71	$56.39	$38.57
Welch	10	$99.15	$679.25	$89.71	$415.18	$38.57	$345.94

Table A.9

Performance Rankings of Chief Executive Eras

General Electric Company

Notes to Table A.9

1. Calculated as pretax profit divided by year-end stockholder's equity.

2. Our return on equity database cuts off in 1990. However, using 1991

and 1992 annual reports, we found that the rank order does not

change adding in these additional years. Welch ROE from 1980–

1992 comes out at 26.83 percent. (For 1991 ROE, we excluded the change in accounting for postretirement benefits in our calculations.)

3. Return on equity database dates back only to 1915; Coffin was in office beginning in 1892.

4. Swope and Young operated as a chief executive team.

5. Calculated as the ratio of cumulative GE stock return during the CEO

era divided by cumulative general market stock return during the GE CEO era.

6. Our stock return database runs from January 1926 through December 1990.

7. Calculated as the ratio of cumulative GE stock return during the CEO

era divided by cumulative general market stock return or cumulative Westinghouse stock return during the GE CEO era.

8. Given Westinghouse's difficulties and GE's success in 1988–1993, we predict that GE under Welch wil rise significantly on this dimension.

Table A.10

Evidence of Self-Improvement

METHOD: In assessing self-improvement in the visionary and comparison companies, we considered evidence along the fol owing dimensions:

A: Long-Term Investments (PP&E, R&D, Earnings, Reinvestments) B: Investment in Human Capabilities: Recruiting, Training, and Development

C: Early Adoption of New Technologies, Methods, Processes D: Mechanisms to Stimulate Improvement.

In each category we gave each visionary and comparison company a rating based on the evidence we had available. We then calculated

an overal index based on a summation of the company's ratings across these dimensions, scoring each "H" as a 3, each "M" as a 2, and each "L" as a 1.

A: Long-Term Investments

H: Significant evidence that the company has a history of reinvesting earnings for long-term growth, based on PP&E ratio as percentage of sales, R&D expenditures, and dividend payout ratios.

M: Some evidence that the company has a history of reinvesting earnings for long-term growth.

L: Evidence that the company has neglected investments for long-term growth.

B: Investment in Human Capabilities

H: Significant evidence that the company has a history of investment in employee recruiting, training, and professional development—even in downturns.

M: Some evidence that the company has a history of investment in employee recruiting, training, and professional development—

even in downturns.

L: Little evidence that the company has a history of investment in employee recruiting, training, and professional development—

even in downturns.

C: Early Adoption

H: Significant evidence that the company has a history of being an early adopter of, for example, new technologies, processes, or management methods.

M: Some evidence that the company has a history of being an

early adopter of new technologies, processes, management methods.

L: Evidence that the company has a history of being a late adopter of new technologies, processes, management methods.

D: Mechanisms

H: Significant evidence that the company has a history of tangible

"mechanisms of discomfort" that impel change and improvement from within before the external environment demands change and improvement.

M: Some evidence that the company has a history of tangible

"mechanisms of discomfort" that impel change and improvement from within before the external environment demands change and improvement.

L: Little or no evidence that the company has a history of tangible

"mechanisms of discomfort" that impel change and improvement from within before the external environment demands change and improvement.

Visionary Companies	"A"	"B"	"C"	"D"	Index Score	Total Delta	Index Score	"A"	"B"	"C"	"D"	Comparison Companies
3M	M	H	H	H	11.00	4.00	7.00	L	M	M	M	Norton
American Express	M	M	L	L	6.00	0.00	6.00	M	M	L	L	Wells Fargo

Boeing	M	M	H	H	10.00	3.00	7.00	M	L	M	M	McDonnell Douglas
Citicorp	M	H	H	M	10.00	4.00	6.00	M	M	L	L	Chase Manhattan
Ford	M	M	M	M	8.00	1.00	7.00	M	M	M	L	GM
General Electric	M	H	H	H	11.00	4.00	7.00	M	L	M	M	Westing-house
Hewlett-Packard	H	H	M	H	11.00	2.00	9.00	M	M	H	M	Texas Instruments
IBM	H	H	M	L	9.00	4.00	5.00	M	L	L	L	Burroughs
Johnson & Johnson	M	M	H	M	9.00	2.00	7.00	M	L	M	M	Bristol-Myers Squibb
Marriott	H	H	M	H	11.00	4.00	7.00	M	L	M	M	Howard Johnson
Merck	H	H	M	H	11.00	3.00	8.00	M	M	M	M	Pfizer
Motorola	M	H	H	H	11.00	6.00	5.00	L	L	L	M	Zenith
Nord-strom	H	M	M	H	10.00	2.00	8.00	M	M	M	M	Melville
Philip Morris	M	M	M	M	8.00	3.00	5.00	L	M	L	L	RJR Nabisco
Procter & Gamble	M	H	H	H	11.00	5.00	6.00	L	M	M	L	Colgate
Sony	M	M	M	M	8.00	0.00	8.00	M	M	M	M	Kenwood
Wal-Mart	M	M	H	H	10.00	5.00	5.00	M	L	L	L	Ames
Walt Disney	H	H	H	L	10.00	6.00	4.00	L	L	L	L	Columbia
Frequency Counts												
No. of *Hs*	6	10	9	10				0	0	1	0	
No. of *Ms*	12	8	8	5				13	10	10	10	
No. of *Ls*	0	0	1	3				5	8	7	8	
Total	18	18	18	18				18	18	18	18	
VC > CC	10	13	11	13		16						
VC = CC	8	5	6	5		2						
VC < CC	0	0	1	0		0						
Total	18	18	18	18		18						

Pair	Visionary Company	Comparison Company	Years Compared
3M/Norton	3.50%	1.44%	1961–1986
American Express/Wells Fargo	NA	NA	NA
Boeing/McDonnell Douglas	.70%	11.84%	1967–1986
Citicorp/Chase Manhattan	NA	NA	NA
Ford/General Motors	2.19%	1.80%	1950–1986
General Electric/Westinghouse	1.23%	1.43%	1915–1987
Hewlett-Packard/Texas Instruments	4.13%	2.89%	1957–1990
IBM/Burroughs	8.03%	3.28%	1934–1988
Johnson & Johnson/Bristol-Myers	2.38%	2.23%	1943–1988
Marriott/Howard Johnson	9.29%	4.20%	1960–1978
Merck/Pfizer	3.59%	3.54%	1941–1990
Motorola/Zenith	2.66%	.72%	1942–1990
Nordstrom/Melville	5.03%	1.23%	1971–1988
Philip Morris/R.J. Reynolds	2.11%	1.13%	1937–1990
Procter & Gamble/Colgate	2.32%	1.15%	1928–1988
Sony/Kenwood	NA	NA	NA
Wal-Mart/Ames	2.53%	2.33%	1970–1989
Walt Disney/Columbia	7.00%	.34%	1939–1980

Table A.10 Backup Data

Average Annual Increase in Gross PP&E as

Percentage of Sales

Pair	Visionary Company	Comparison Company	Years Compared
3M/Norton	.50	.50	1961–1986
American Express/Wells Fargo	NA	NA	NA
Boeing/McDonnell Douglas	.27	.17	1967–1986
Citicorp/Chase Manhattan	.40	.47	1954–1989
Ford/General Motors	.36	.65	1950–1986
General Electric/Westinghouse	.65	.51	1915–1987
Hewlett-Packard/Texas Instruments	.10	.23	1957–1990
IBM/Burroughs	.50	.64	1934–1988
Johnson & Johnson/Bristol-Myers	.32	.52	1943–1988
Marriott/Howard Johnson	.20	.27	1960–1978
Merck/Pfizer	.55	.47	1941–1990
Motorola/Zenith	.32	.52	1942–1990
Nordstrom/Melville	.15	.34	1971–1988
Philip Morris/R.J. Reynolds	.54	.63	1937–1990
Procter & Gamble/Colgate	.79	.70	1926–1988
Sony/Kenwood	NA	NA	NA
Wal-Mart/Ames	.10	.12	1970–1989
Walt Disney/Columbia	.06	.27	1950–1980

Table A.10 Backup Data

Average Annual Dividend Payout Ratio

Appendix 4

CHAPTER NOTES

The pagination of this electronic edition does not match the edition from which it was created. To locate a specific passage, please use the search feature of your e-book reader.

CHAPTER 1

1. Author interview, November 19, 1990.

2. “The Character of Procter & Gamble,” text of speech by John G.

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3. We used the Center for Research in Securities Market Index Database (CRSP) as the source of our stock return data. The

“general-market” portfolio consists of the weighted average (based on market value) of al stocks traded on the NYSE beginning in 1926, AMEX beginning in 1962, and NASDAQ beginning in 1972.

Analysis does not include Nordstrom versus Melvil e and Sony versus Kenwood (data not available in CRSP), which would have improved the performance of the visionary companies. We were faced with a decision about how to handle Texas Instruments, which merged with Intercontinental Rubber Company in 1953. To maintain consistency across the data source, we elected to use the CRSP

data directly—since this is what we did in al of our other companies in the analysis. However, to ensure that TI would not unduly skew the data, we also calculated the returns using TI data only after the 1953

merger. This produced a comparison total of $1,024, thus not dramatical y changing the overal result; the visionary companies stil outperformed the comparison companies by over six times.

4. We used descriptive statistics, histograms, confidence intervals, and t-tests. We examined:

• Population versus returns. Expected returns based on: (number of companies headquartered in each state in the population) times (total number of returns)/(total population), as compared to actual returns.

• Population versus sample. Expected sample based on: (number of companies headquartered in each state in the population) times (total sample/total population), as compared to actual sample by state.

• Sample versus returns. Expected returns based on: (number of companies headquartered in each state) times (total number returned)/(total sample), as compared to actual returns by state.

• In al three of the preceding cases, the difference in scores proved not significantly different from zero.

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6. Darwin didn't see the tortoises and immediately have the flash of insight that led to his theory of evolution (in fact, he left the Galapagos stil a creationist). But the tortoises (and other variations in species) that didn't fit neatly into prior assumptions about species planted a tiny seed of doubt and discontent, which later germinated in his evolutionary theory of variation and natural selection. (See Stephen J. Gould's book The Flamingo's Smile,

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11. Vance Trimble, Sam Walton (New York: Dutton, 1990), 121.

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2. Robert W. Galvin, The Idea of Ideas (Schaumburg, IL: Motorola University Press, 1991), 51–52.

3. “A Master Class in Radical Change,” Fortune, 13 December 1993.

4. Welch was born on November 19, 1935 (Slater, 27). He began work at GE on October 17, 1960 (Slater, 33). The board named him CEO-elect on December 19, 1980; he took office four months later (Tichy, 58).

5. Robert Slater, The New GE (Homewood, IL: Irwin, 1993), 24.

6. The General Electric Story (Schenectady, NY: Hal of History Foundation, General Electric Company, 1981), volume 4, 81; Robert Slater, The New GE (Homewood, IL: Irwin, 1993), 25.

7. GE under Jones grew pretax profits at an average annual rate of 14.06 percent; GE under Welch grew pretax profits at 8.49 percent.

Using a combination of return on equity, return on sales, and return on assets, Jones attained an average of 17.32 percent; Welch attained 16.03 percent.

8. The General Electric Story (Schenectady, NY: Hal of History Foundation, General Electric Company, 1981), volume 4, 28–31.

9. Noel M. Tichy and Stratford Sherman, Control Your Own Destiny or Someone Else Will (New York: Doubleday, 1993), 256.

10. The General Electric Story (Schenectady: Hal of History Foundation, General Electric Company, 1981), volume 4, 23.

11. Noel M. Tichy and Stratford Sherman, Control Your Own Destiny or

Someone Else Will (New York: Doubleday, 1993), 39.

12. Calculated as pretax profit divided by year-end stockholder's equity.

We constructed Excel Spreadsheets dating back to 1915 using Annual Reports and Moody's financial analysis reports.

13. Calculated as the ratio of cumulative GE stock return during the CEO era divided by cumulative general market stock return or cumulative Westinghouse stock return during the GE CEO era.

14. Noel M. Tichy and Stratford Sherman, Control Your Own Destiny or Someone Else Will (New York: Doubleday, 1993), 42.

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19. Centennial Review, Internal Westinghouse document, 1986.

20. Gwilym Price had been hired two years earlier to negotiate military war

contracts.

Succeeded

Andrew

Robertson.

Source:

International Directory of Company Histories (Chicago: St. James Press, 1988).

21. “Westinghouse’s New Warrior,” Business Week, 12 July 1993, 38; Westinghouse 1992 Annual Report.

22. An “outsider” is someone who had not worked inside the company prior to becoming chief executive. Companies use different official titles at different times in history: president, general manager, chief executive officer, chairman, and others. CEO is actual y a relatively new term, not used extensively in business until the 1970s. We picked the person who held the de facto role of operating chief executive, regardless of the exact title. We counted CEO transitions during and after acquisitions or mergers in our tabulations.

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24. “Colgate-Palmolive-Peet,” Fortune, April 1936, 120–144.

25. Ibid.

26. Shields T. Hardin, The Colgate Story (New York: Vantage Press, 1959), 71–75.

27. We calculated an average return on sales for both companies for the first three years of Pearce’s tenure (1928–1930) and compared to an average return on sales for the second three years of his tenure (1931–1933).

28. Colgate’s core ideology prior to Pearce is wel documented in Sidney M. Colgate’s “A Policy that Guided 118 Years of Steady Growth,” System: The Magazine of Business, December 1924, 717.

29. “Colgate-Palmolive-Peet,” Fortune, April 1936, 120–144.

30. Ibid.

31. P&G sales grew a total of 178.58 percent and Colgate sales grew at 87.52 percent during the period 1934–1943. Cumulative profit before tax

for the period 1934–1943 was $285 mil ion at P&G and $74 mil ion at Colgate.

32. Business Week, 4 May 1957, 120.

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34. “More for Lesch?” Forbes, 1 March 1969.

35. Hugh D. Menzies, “The Changing of the Guard,” Fortune, 24

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16. “Human Resources at Hewlett-Packard,” Harvard Business School Case No. 482-125, 5.

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10. Welcoming address by George W. Merck at dedication of the Merck Research Laboratory, 25 April 1933, courtesy Merck & Co.

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11. Goal clearly evident in early 1930s. The quote comes from George Merck speech, 22 April 1935, courtesy Merck & Co. archives.

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Stanford, have had to write some of these recommendations; they are unlike any other we’ve found in industry.

37. Many references to this throughout internal and external documents.

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39. David Packard memo to employees from “Watt’s Current,”

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43. Memo to HP employees that went with HP prospectus in 1957.

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45. Began as a outgrowth of the 1945 layoffs at the end of World War I .

46. First articulated during the transfer of the Oscil oscope Division from Palo Alto to Colorado Springs in 1964, courtesy Hewlett-Packard Company archives.

47. HP implemented this with the recession in the early 1970s.

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68. Speech by Dave Packard, 1974, courtesy Hewlett-Packard Company archives.

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managed to get original copies—on faded brit le parchment—of George Merck's rst speeches that outlined the vision for Merck. To both Karen and Jef , we cannot thank you enough.

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They lived with the book, helped us write it, and stayed married to us as we struggled through the long months of writing. Lucky we are.

Virginia Smith, our editor at HarperBusiness, worked closely with us from day one, editing and commenting on each chapter as we went along. She gave us many helpful tips and excel ent overal guidance to improve the manuscript. Just as important, she believed in the project and gave us much-needed encouragement each step along the way. We did not want to let her down.

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About the Authors

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JIM COLLINS is a student and teacher of enduring great companies—

how they grow, how they at ain superior performance, and how good companies can become great companies. The author of the national bestsel er Good to Great, his work has been featured in Fortune, the Economist, USA Today, and Harvard Business Review.

JERRY I. PORRAS is the Lane Professor of Organizational Behavior and Change, Emeritus, at the Stanford University Graduate School of Business where he has served as associate dean for academic a airs and frequent executive education teacher. He studies ways of aligning companies around their purpose and core values to produce lasting high performance.

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Author’s Note

Author’s Note

As we sat down to write this author’s note for the Col ins Business Essentials edition, Built to Last celebrated its sixth year on the Business Week bestsel er list. Far beyond what we would have dared to imagine, Built to Last has lived up to its own name.

Ironical y, we can claim no credit for the title. Creativity often sprouts from frustration, and our editors in 1994 were frustrated in the extreme. We had inserted a clause into our publishing contract that gave us nal right of approval, and as the publication date neared, we just kept vetoing titles. In al , something on the order of 127 di erent options fel by the wayside, from “You Are the Competition” to “Research Results on Visionary Companies.”

The situation nal y escalated to the executive editor for HarperCol ins, who went home for the weekend and returned on Monday morning with an idea. “Here,” he said, throwing a three-by- ve note card on our editor’s desk, “see if they’l go for this.” On it he’d writ en the simple phrase “Built to Last.”

And we had our title.

In retrospect, Built to Last is a great title, but it is also the wrong title. Not from a marketing standpoint (don’t get us wrong, we’d stil keep it), but from the standpoint of what this book is real y al about. Built to Last, it turns out, is not fundamental y about building to last. It is about building something that is worthy of lasting—about building a company of such intrinsic excel ence that the world would lose something important if that organization ceased to exist. Implicit on every page is a simple question: Why on earth would you set le for creating something mediocre that does lit le more than make money, when you can create something outstanding that makes a lasting contribution as wel ? And in the end, as the evidence from our research showed, those who make a

end, as the evidence from our research showed, those who make a lasting contribution make more money over the long run anyway.

If we were rewriting Built to Last today, we would not overturn any of the basic concepts; they are timeless principles. We certainly know more about great companies than we did in 1994, and there is certainly much that we could add, but our faith in the fundamental ndings has not faded. Indeed, we are more convinced than ever that building an enduring great company—one that is truly worthy of lasting—is a noble cause.

Jim Col ins and Jerry Porras

April 2002

MORE PRAISE FOR BUILT TO LAST

MORE PRAISE FOR BUILT TO LAST

“The great value of Built to Last is that no one before had ever taken a look at what makes these companies successful. . There’s a lot of common sense here, which seems more important in the end than the latest management theory of the month.”

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Business Monday,

San Jose Mercury News

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“[Built to Last] is the sort of book that makes an immediate strong impression; it’s the kind CEOs buy

immediate strong impression; it’s the kind CEOs buy by the dozens, if not the hundreds. Simply and straightforwardly, Mr. Col ins and Mr. Porras make their point, support it, and get out of the way. . The lessons are here to be learned, for CEOs, managers and entrepreneurs alike. If you want to build your organization to last, you can, and this book wil provide a good blueprint.”

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Credits

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BUILT TO LAST

SUCCESSFUL HABITS OF VISIONARY COMPANIES

JIM COLLINS

(Bestselling author of **GOOD TO GREAT**)

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