

Built to Last

Jim Collins/Jerry Porras
 Harper Business Essentials (Paperback Edition)
 368 Pages
 ISBN: 0060516402



Chapter ONE

On the basis of substantial research, Jim Collins and Jerry Porras observe the distinctive habits of companies of enduring greatness. In the words of the authors, “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 significant impact on the world around them.” Visionary leaders and breakthrough ideas come and go, but visionary companies survive the transitions.

The “successful habits” of the visionary companies were observed in comparison to “silver medalist” companies in the same industry. Both the visionary and comparison companies outperformed the market, but the visionary companies demonstrated extraordinary long-term results. The tandems most frequently referenced in the book are GE/Westinghouse, HP/Texas Instruments, Motorola/Zenith, P&G/Colgate, Merck/Pfizer, and Wal-Mart/Ames.

These comparisons dispelled commonly held myths regarding the nature of exceptional companies.

	Myth	Reality
1	It takes a great idea to start a great company	Visionary companies did not demonstrate early success
2	Visionary companies require great and charismatic visionary leaders	Leaders of visionary companies were focused on building great institutions as opposed to building their individual reputations
3	The most successful companies exist first and foremost to maximize profits	Visionary companies are characterized by the pursuit of multiple priorities only one of which is making money.
4	Visionary companies share a common subset of “correct” core values	Visionary companies are ruthless stewards of their actual values
5	The only constant is change	As noted above, visionary companies are built on an unshakable ideological foundation
6	Blue-chip companies play it safe	The visionary companies, guided by BHAG’s (big, hairy audacious goals), showed remarkable capacity to take daunting risks
7	Visionary companies are great places to work, for everyone	Because the core ideology is so strongly embedded in the culture of the organization, employees who deviate from the ideology find themselves strangely misplaced
8	Highly successful companies make their best moves by brilliant and complex strategic planning	Visionary companies demonstrate a capacity to experiment, to try things that might work
9	Companies should hire outside CEO’s to stimulate fundamental change	Visionary companies accomplish great change by promoting internal candidates
10	The most successful companies focus primarily on beating the competition	Visionary companies, guided by their core ideology, work to beat themselves asking habitually “how can we do this better?”
11	You can’t have your cake and eat it too	Visionary companies work to find a third way that frees them from the tyranny of “this OR that”
12	Companies become visionary primarily through “vision statements.”	Visionary companies embodied their vision with distinctive, visionary behaviors

Comparing the visionary set with the comparison companies, the authors asked “What is essentially different about these companies?” Additionally, the authors observed the two groups of companies across an historical perspective enabling them to rise above management fad to observe timeless principles.

Chapter TWO: Enabling versus Doing

In this chapter, the authors contrast clock building and time telling. Time telling is analogous to extraordinary individual accomplishment while clock building enables many others to “tell time.” “Having a great idea or being a charismatic visionary leader is ‘time telling’; building a company that can prosper far beyond the presence of any single leader and through multiple product life cycles is ‘clock building.’” The famed pair, Bill Hewlett and David Packard decided to found a great company and then worked to determine what it is they would make. Ames beat Wal-Mart to the punch by four years, but over time, Wal-Mart dominated the marketplace – not because Sam Walton had a great idea, but because he built a great company.

The authors offer this key distinction – “We had to shift from seeing the company as a vehicle for the products to seeing the products as a vehicle for the company.” Therefore, the architects of these visionary institutions worked to create environments that gave birth to great products. The greatest contribution of Hewlett and Packard was not the pocket calculator, but the *HP Way* – an environment conducive to innovation and excellence.

The authors ask the reader to “see the success of visionary companies as coming from...fundamental dynamics embedded in the organization and not primarily the result of a single great idea or some...godlike visionary who made great decisions. One compelling historical illustration can be harvested from the Constitutional Convention of 1787. The drafters of the constitution did not work to select an extraordinary leader, but to establish an extraordinary process for selecting leaders that itself would endure across centuries of time. Consequently, they were more than time tellers – they were clock builders.

Interlude: Leaders and the Third Way

Effective decision makers refuse to be handcuffed by unnecessary dichotomies. Visionary leaders of visionary companies find a third way – not “this or that,” but “this and that.” The authors call this the “genius of the and” as opposed to the “tyranny of the or.”

On the one hand:	Yet, on the other hand:
Purpose beyond profit	Pragmatic pursuit of profit
A relatively fixed core ideology	Vigorous change and risky moves
Big Hairy Audacious Goals	Incremental evolutionary progress
Selection of managers steeped in the core	Selection of managers that induce change
Ideological control	Operational autonomy
Cult-like culture	Remarkable adaptability
Investment in the long-term	Demands for short-term performance
Organization aligned with the core	Organization adapted to its environment

A visionary company isn’t concerned with balance, but seeks to hold together what others consider competing pursuits.

Chapter THREE: Profit – A Means or an End?

For what purpose does a business exist? The surface answer to this question is very obvious – a restaurant exists to provide meals, an auto parts store to sell auto parts. Businesses exist to do business, to make money. From his research of the extraordinary visionary companies, Collins observed that these organizations exist for something more than profits. George Merck II challenged

his company “never to forget that medicine is for people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear.”

Everyone who has worked in a publicly traded company knows the mantra of “maximizing shareholder value.” Whereas the importance of this cannot be ignored, visionary companies pursue a “cluster of objectives, of which making money is only one.” The authors acknowledge that profitability is a “necessary condition” and a “means to more important ends.” However, extraordinary leaders distinguish ends and means. “Profit is like oxygen, food, water, and blood for the body; they are not the point of life, but without them, there is no life.”

Profits come as a consequence of pursuing the higher ends and as a means of enabling the pursuit of the higher ends. The ends versus means distinction is enabled by a thoroughly established “core ideology.” The core ideology is the sum of the core values and the corporate purpose.

- Core values are a “small set of general guiding principles.”
- Purpose refers to “the organization’s fundamental reasons for existence beyond just making money.”

Core values are the beliefs that precede and inform all the policies and pursuits of the organization. The most powerful values statements are those that are made with penetrating simplicity.

Whether discussing the Merck Credo or the HP Way, those who have studied these extraordinary companies find an intentional stewardship of the core ideology at all levels of the organization. It is important to note that these legendary statements of core ideology were not crafted because they were thought to be the right things to say. These were the real beliefs of the leaders of these exceptional companies.

Why are you in business? Do you have a reason that supersedes making a profit? Purpose, when well crafted, can guide a company for generations to come and when coupled with compelling, honest value statements can provide a moral compass by which the organization can navigate the future.

Chapter FOUR: Nimble Adaptability

Because of their effective stewardship of the core ideology, leaders of visionary companies are able to lead their organizations through massive change processes enabling them to endure across generations of time, leadership transitions, market fluctuations and technological developments. For Wal-Mart, the commitment to “Exceed Customer Expectations” is a fixture in its core ideology, but the presence of the “greeter” is a changeable expression of the core value. Nimble, adaptable companies carefully discern the difference between the two – unchanging core and ever changing “culture, strategy, tactics, operations, policies or other non-core practices.”

In fact, the visionary company works with equal fervor to “preserve the core” *and* “stimulate progress.”

Core Ideology	Drive for Progress
Provides continuity and stability	Urges continual change
Plants a relatively fixed stake in the ground	Impels constant movement
Limits possibilities and directions	Expands the number and variety of opportunities the company can consider
Has clear content	Can be content free – all progress is good as long as it is consistent with the core
Installing a core ideology is, by its very nature, a conservative act	Expressing the drive for progress can lead to dramatic, radical, and revolutionary change

Chapter FIVE: Say what?!

Theodore Roosevelt is quoted by the authors as saying, “Far better 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 suffer much, because they live in the gray twilight that knows neither victory, nor defeat.” Leaders of visionary companies lead their organizations out of the morass of complacency through the guiding light of what Collins calls BIG HAIRY AUDACIOUS GOALS or BHAG’s.

Visionary companies seek out compelling challenges that draw out extraordinary effort. A BHAG, according to the authors, “is tangible, energizing, and highly focused.” The most vivid illustration of this is the commitment of the nation by President Kennedy “to achieving the goal...of landing a man on the moon” before the end of the decade. No wordsmithing required. This message was clear, compelling and called out of men and women across the public and private sectors of our national enterprise a courageous, heroic effort.

Questions that will be answered by a BHAG:

- Does it stimulate forward progress?
- Does it create momentum?
- Does it get people going?
- Does it get people’s juices flowing?
- Do they find it stimulating, exciting, and adventurous?

“A BHAG only helps an organization as long as it has not yet been achieved.” For many leaders and many great organizations, the beginning of the end comes when the organizing BHAG has been accomplished. Visionary companies constantly gaze into the future to map out new targets, new destinations. Establishing the BHAG is only valuable if it is met with an unrelenting commitment to see it accomplished. The culture of a visionary company is characterized by a confidence that embraces the BHAG. The beauty of the BHAG is that the goal transcends the leader. Organizations that lose a charismatic leader and have no BHAG to carry it through the transition will always languish.

The authors offer these summary statements regarding BHAG’s:

- “...so clear and compelling that it requires little or no explanation...”
- “...fall well outside the comfort zone...”
- “...so bold and exciting...that it would continue to stimulate progress even if the organization’s leaders disappeared...”
- “...has the inherent danger that, once achieved, an organization can stall and drift in the ‘we’ve arrived’ syndrome...”
- “...consistent with the company’s core ideology.”

Chapter SIX: Bound by Belief

Visionary companies are extraordinary places to work...at least for those who find the core ideology of the company consistent with their own. Because the company is clear on its core ideology, it is magnetically attractive to like-minded people. The core ideology circulating throughout the organization drives a “cult-like culture.”

Visionary companies demand more of their people...invest more in their people...get more from their people. These outcomes are achieved by recruiting with a relentless commitment to the core ideology, by indoctrinating new recruits, by working to ensure that each new employee will fit the culture and by cultivating a privilege mindset (“a sense of belonging to something special and superior”). Visionary companies prefer hiring young people for entry level positions and then “rigorously molding them” into their “ways of thought and behavior, spitting out the misfits and making middle and top slots available” only to the loyal.

This is not about a cultism around a charismatic personality. The cult-like behavior is fueled by the core ideology. The stories of these companies focus on what they believe and not on the extraordinary accomplishments of a highly capable individual. As a consequence of this carefully

cultivated devotion to the core ideology, freedom to decentralize operations and decision making is a characteristic of visionary companies.

Chapter SEVEN: Give it a try!

Resolved clarity around the core ideology frees the visionary organization to “try a lot of stuff and keep what works.” Strategic planning is not discarded, but neither is it a barrier to the genius of “experimentation, trial and error, opportunism and – quite literally – accident.” J&J solved a problem for a customer and found itself in the business of selling baby powder, a product that at one point provided 44% of their gross revenue. Marriot stumbled into providing meals for the airline industry by observing customers at their location near Hoover Airport in D.C. purchasing meals and stuffing them into their carry-on luggage.

This unplanned opportunism, the authors call “evolutionary progress.” Visionary companies demonstrate a higher capacity to experiment. Grafting in new branches and pruning dead wood enables the visionary company to grow as well as sustain success over time. In fact, visionary companies create a culture of opportunistic experimentation that facilitates innovation. The authors observe that the 3M Post-it Note may have resulted from a failed adhesive product, but the culture that enabled this highly profitable mistake was anything but accidental.

Applying the “try a lot mentality...”

1. Act – Evaluate – Fix – Adjust!
2. Accept that mistakes will be made.
3. Take small steps.
4. Give people the room they need.
5. Institute mechanisms that stimulate innovation.

Chapter EIGHT: Homegrown Leaders

One striking difference observable in visionary companies is the ability to develop and consequently promote “homegrown” managers. Jack Welch came from deep within General Electric to become a legendary corporate executive. “We respect Welch for his remarkable track record. But we respect GE even more for its remarkable track record of continuity in top management.” Equally impressive is the fact that more GE alums occupy CEO positions than the alums of any other company.

When a company invests in leadership development, the result is depth of internal candidates for future management positions. Internal candidates provide consistent leadership which allows the organization to “preserve the core and stimulate progress.” Lack of leadership depth often leads to “corporate stall and the search for a savior.” “Simply put, our research leads us to conclude that it is extraordinarily difficult to become and remain a highly visionary company by hiring top management from outside the organization.” Shouldn’t you bring in new blood to keep the organization from stagnating? The authors found that insiders were better prepared to initiate substantive change that is consistent with the core ideology of the company. Therefore, it is essential that organizations invest in leadership development and build succession plans.

Chapter NINE: Continuous Improvement

Visionary companies are characterized by a habitual drive to improve. “How can we do better tomorrow than we did today?” Visionary companies achieve extraordinary outcomes because they refuse to settle for anything less. J. Willard Marriot, “Discipline is the greatest thing in the world. Where there is no discipline, there is no character. And without character, there is no progress.”

Visionary companies seek to “obliterate complacency” and they “thrive on discontent.” Visionary organizations build “discomfort mechanisms” into their operational processes. Boeing asks managers to strategically plan as if they worked for a competing company. This exercise is called “the eyes of the enemy.” Wal-Mart challenges its employees to “beat yesterday.”

Visionary companies prepare for and invest in the long-term while demanding outstanding short-term results. They invest in training and recruiting as well as early acceptance of “new technologies, new management methods, and innovative industry practices.”

Stimulate improvement by asking:

1. What “mechanisms of discontent” can you create that would obliterate complacency and bring about change...consistent with your core ideology? How can you give these mechanisms sharp teeth?
2. What are you doing to invest in the future while doing well today?
3. Does your company continue to build for the long-term even during difficult times?
4. Do people in you company understand that comfort is not the objective – that life in a visionary company is not supposed to be easy?

The good news/bad news summary is that “the key elements of being a visionary company are strikingly simple: Good, old-fashioned hard work, dedication to improvement, and continually building for the future...” But, building a visionary company “requires huge quantities of hard work...There are no short-cuts.”

Chapter TEN: Alignment Check

Vision statements do not guarantee a visionary company. Leaders must do the hard work of aligning everything the company does with its core ideology. Alignment means that “all the elements of a company work together within the context of the company’s core ideology and the type of progress it aims to achieve.”

By indoctrinating everyone in the HP Way, the Hewlett-Packard Company insured that it would be characterized by an entrepreneurial culture. This intentional alignment caused one HP manager to remark, “When I first joined HP in 1952 it was immediately apparent that nearly all of its 400 employees were enthusiastic about, loyal to, and proud of their company to an unusual degree...We all believe in [these philosophies] and practice them. They are part of our way of life.”

Alignment Lessons:

1. Paint the whole picture. A visionary company paints a comprehensive picture of its core ideology and its desired progress.
2. Sweat the small stuff. Small signals send big messages.
3. Cluster, don’t shotgun. Visionary companies put processes together that reinforce ideology and desired outcomes.
4. Swim in your own current, even if you swim against the tide. Establish practices that work for you and avoid being drawn into fads that don’t fit.
5. Obliterate misalignments:
 - a. Does your incentive system reward behaviors inconsistent with your core values?
 - b. Does the organization’s structure get in the way of progress?
 - c. Are there any goals and strategies that drive the company away from its basic purpose?
 - d. Are there any corporate policies that inhibit change and improvement?
 - e. Does the office and building layout stifle progress?
6. Keep the universal requirements while inventing new methods. Reinforce your core ideology while stimulating a culture of experimentation. These are not competing values.

These concepts can be assimilated by any leader – no extraordinary talent required. Though simple, the work associated with this kind of leadership is by no means easy.

Chapter ELEVEN: Conclusion

Visionary companies recognize that change is a constant. These companies navigate change guided by their core ideology and envisioned future. Core ideology is a representation of the enduring

character of the organization. The authors call core ideology the “bonding glue” that enables an organization to adapt, transition, expand, and decentralize. Core ideology is composed of core values and core purpose. The purpose of core ideology is “to guide and inspire, not to differentiate.”

Core values are a smaller set of timeless guiding principles. Resist building a list of values that should be held and limit yourself to values that are actually held. Core purpose represents the “organization’s fundamental reason for being.” The core purpose should reflect an enduring quality. For 3M, “to solve unsolved problems innovatively” is the core purpose. Wal-Mart’s core purpose is “to give ordinary folk the chance to buy the same things as rich people.” To assist organizations in the process of defining their core purpose, the authors suggest asking the “five whys.” After defining what it is that the organization does, ask why five times. This allows the leader to drill below the surface to the core purpose for which the organization exists.

An envisioned future “consists of two parts: a ten- to thirty-year ‘Big Hairy Audacious Goal’ and vivid descriptions of what it will be like when the organization achieves the BHAG.” The authors suggest setting goals in any of these four categories: target (To become a \$125 million company by 2010), common enemy (Overtake XYZ Corp. as the market leader), role model (To become the Toyota of leadership consulting), or internal transformation (Transform the company from a manufacturing company to a distribution and marketing company). An envisioned future should build enthusiasm and stimulate momentum. In the words of the authors, an envisioned future should “get the juices flowing.”

Built to Last – Integration Questions

1. As you read this summary, what did you find most helpful?
2. What questions did this summary stir up?
3. Take a look at the Myth/Reality Chart.
 - a. Which of these findings is most surprising?
 - b. Which of these finding is most obvious?
4. Collins recounts the story of HP. David Packard and Bill Hewitt determined to build a great company (the HP Way) and then found a product to sell. Think through the founding story of your organization. Is the story about a great idea, a great effort or a great company?
5. Take a look at the Tyranny of the Or List.
 - a. Which of these assumed dichotomies tyrannizes your organization?
 - b. What would you add to the list?
6. Why are you in business? (Business owners can think about this from an organizational perspective. Everyone should think about this from a personal perspective.) Do you have a purpose that supersedes making a profit? Do you believe the statement that visionary companies see profit as a means, not an end?
7. What BHAG are you pursuing right now – individually and organizationally?
 - a. Does it stimulate forward progress?
 - b. Does it create momentum?
 - c. Does it get people going?
 - d. Does it get people's juices flowing?
 - e. Do they find it stimulating, exciting, and adventurous?
8. A visionary company is not a great place for everyone to work. Complete this statement – "For someone to be happy in this organization they must value _____."
9. What are you doing in your self-leadership and in your organizational leadership to avoid the trap of complacency?
10. Visionary companies pay attention to the "small stuff." What "small stuff" exists in your life/organization that undermines your core values?
11. A solid core ideology enables a visionary organization to simultaneously pursue a progressive future plan. How are you stimulating a culture of experimentation with your team?
12. What is one thing that you picked up from this summary that you want to assimilate into your leadership? What will that assimilation look like?