The Ultimate Vision

Across the Board

by Jim Collins and Jerry I. Porras

Visionary leaders die.
Visionary products become obsolete.
Visionary companies go on forever.

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 significant impact on the world around them. The key point is that a visionary company is an organization—an institution. All individual leaders, no matter how charismatic or visionary, eventually die; and all visionary products and services—all “great ideas”—eventually 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 five to 10 organizations that meet the following 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 different from other companies that had the same opportunities in life but didn’t attain the same stature?

We chose the term “visionary” companies, rather than just “successful” or “enduring” companies, to reflect 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, really—for the practice of management around the world.

Yet as extraordinary as they are, the visionary companies do not have unblemished records. Walt Disney Co. faced a serious cash-flow crisis in 1939 that 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 Co. had serious difficulties in the mid 1930s, the late 1940s, and again in the early 1970s when it laid off more than 60,000 employees. 3M Co. began life as a failed mine and almost went out of business in the early 1900s. Hewlett-Packard Co. faced severe cutbacks in 1945; in 1990, it watched its stock drop to a price below book value. Sony Corp. had repeated product failures during its first five years of life (1945-1950), and in the 1970s it saw its Beta format lose to VHS in the battle for market dominance in VCRs. Ford Motor Co. posted one of the largest losses in American business history ($3.3 billion 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 Corp. was nearly bankrupt in 1914, then again in 1921, and is having trouble again in the 1990s.

Indeed, all of the visionary companies in our study faced setbacks, and made mistakes at some point during their lives, and some are experiencing difficulty even now. 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 attain 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 Jan. 1, 1926.

If you received all dividends and made appropriate adjustments for when the company 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 Dec. 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—more than six times the comparison fund and more than 15 times the general market.

But the visionary companies have done more than just generate long-term financial returns; they have woven themselves into the very fabric of society. Imagine how different 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 traveler's checks, ATM machines pioneered on a wide scale by Citicorp, Johnson & Johnson Band-Aids and Tylenol, General Electric light bulbs and appliances, Hewlett-Packard calculators and laser printers, IBM 360 computers and Select typewriters, Marriott Hotels, anticholesterol Mevacor from Merck, Motorola cellular phones and paging devices, Nordstrom's impact on customer-service standards, and Sony Trinitron televisions 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 billboards or rural America without Wal-Mart stores. For better or worse, these companies have made an indelible imprint on the world around them.

The exciting thing, however, is to figure 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 difficult 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? Answers to these questions are suggested by a dozen common myths that were shattered during the course of our research.

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 specific idea and a few began with outright failures. Furthermore, regardless of the founding concept, the visionary companies were significantly 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 off to a slow start but win the long race.

In all, only three of the visionary companies begin life with the benefit of a specific, innovative, and highly successful initial product or service—a "great idea": Johnson & Johnson Inc., General Electric Co., 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 a direct current (DC) system, whereas Westinghouse promoted the vastly superior alternating current (AC) system, which eventually prevailed in the U.S. market. 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 the idea. Just the opposite. Ford was able to take full advantage of the Model T concept because he already had a company in place as a launching pad.

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 a company's long-term prospects. Some of the most significant CEOs in the history of visionary companies did not fit the model of the high-profile, charismatic leader—indeed, some explicitly shied away from the model. Like the founders of the United States at the Constitutional Convention, they concentrated more on building an enduring institution than on being a great individual leader. They sought to be clock builders, not time tellers. And they have been more this way than CEOs at the comparison companies.

If you're a high-profile charismatic leader, fine. But if you're not, then that's fine, too, for you're in good company right along with those that built companies like 3M, Procter & Gamble Co., Sony, Boeing, HP, and Merck & Co. Inc. Not a bad crowd.

MYTH 3: The most successful companies exist first and foremost to maximize profits

Reality: Contrary to business-school doctrine, "maximizing shareholder wealth" or "profit 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 profits, but they're equally guided by a core ideology—core values and a sense of purpose beyond just making money. Yet, paradoxically, the visionary companies make more money than the purely profit-driven comparison companies.

A detailed pair-by-pair analysis shows that the visionary companies have generally been more ideologically driven and less purely profit-driven than the comparison companies in 17 out of 18 pairs. This is one of the clearest differences we found between the visionary and 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 radically different 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 all that it does. Visionary companies do not ask, "What should we value?" They ask, "What do we actually value deep down to our toes?"

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 1 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." 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 full weight, go to something else that is honest, even if it is breaking stone." Notice how former HP CEO John Young captured the simplicity of the HP Way: "The HP Way basically means respect and concern for the individual; it says 'Do unto others as you would have them do unto you.' That's really what it's all about." The core value can be stated a number of different ways, yet it remains simple, clear, straightforward, and powerful.

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 all the visionary companies:

- Some companies, such as Johnson & Johnson and Wal-Mart Stores Inc., made their customers central to their ideology; others, such as Sony and Ford, did not.
- Some companies, such as HP and Marriott, made concern for their employees central to their ideologies; others, such as Nordstrom Inc. 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 Inc. and 3M, made innovation central to their ideology; others, such as P&G and American Express Co., did not.

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 all cases, the core values have remained intact for well over 100 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 fixed, visionary companies display a powerful drive for progress that enables them to change and adapt without compromising their cherished core ideals.

Walt Disney didn't leave its core ideology up to chance; it created Disney University and required every single employee to attend "Disney Traditions" seminars. Hewlett-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 fitting tightly into the HP Way. Marriott 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 well become well-paid heroes, and those who treat customers poorly get spit right out of the company.

MYTH 6: Blue-chip companies play it safe

Reality: Visionary companies may appear strait-laced 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 challenge of it grabs people in the gut, gets their juices flowing, 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.

All companies have goals. But there is a difference between merely having a goal and becoming committed to a huge, daunting challenge—like a big mountain to climb. Think of the moon mission in the 1960s. President Kennedy and his advisers could have gone off into a conference room and drafted something like “Let’s beef up our space program,” or some other such vacuous statement. The most optimistic scientific assessment of the moon mission’s chances for success in 1961 was 50-50, and most experts were, in fact, more pessimistic. Yet Congress agreed (to the tune of an immediate $549 million and billions more in the following five 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.” 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 getting the United States, still groggy from the 1950s and the Eisenhower era, moving vigorously forward.

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

Reality: Only those who “fit” extremely well with the core ideology and demanding standards of a visionary company will find it a great place to work. If you go to work at a visionary company, you will either fit and flourish—probably couldn’t be happier—or you will likely be expunged like a virus. It’s binary. There’s no middle 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 unwilling or unable to fit their exacting standards.

A cult-like culture can actually enhance a company’s ability to pursue BHAGs, 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 successfully 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 cultlike dedication to its ideology gave its 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 effort required to establish Merck as the preeminent pharmaceutical company in the world.

Myth 8: Highly successful companies make their best moves by brilliant and complex strategic planning

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

The central concept of evolutionary theory—and 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 attains “good chances” that some of its members will be well-suited to the demands of the environment. As the environment shifts, the genetic variations that best fit the environment tend to get “selected” (that is, the well-suited variations tend to survive and the poorly suited tend to perish—that’s what Darwin meant by “survival of the fittest”). The selected (surviving) variations then have greater representation in the gene pool and the species will evolve in that direction. In Darwin’s own words: “Multiply, vary, let the strongest live, and the weakest die.”

MYTH 9: Companies should hire outside CEOs to stimulate fundamental change

Reality: In 1,700 years of combined life spans across the visionary companies through 1990, we found only four individual incidents of going outside for a CEO—and those in only two companies: Philip Morris Inc. and Disney. Homegrown 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 insignificant change and fresh ideas cannot come from insiders.

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.

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

Reality: Visionary companies focus primarily on beating themselves. Success and beating competitors come 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 better tomorrow than we did today?” And they have asked this question day in and day out—as a disciplined way of life—in some cases for more than 150 years. No matter how much they achieve—no matter how far in front of their competitors they pull—they never think they’ve done “good enough.”

Comfort is not the objective in a visionary company. Indeed, visionary companies install powerful mechanisms to create discomfort—to obliterate complacency—and thereby stimulate change and improvement before the external world demands it.

General Electric institutionalized internal discomfort with a process called “work out.” Groups of employees meet to discuss opportunities for improvement and make concrete proposals. Upper managers are not allowed to participate in the discussion, but must make on-the-spot decisions about the proposals, in front of the whole group—they cannot run, hide, evade, or procrastinate.

Boeing created discomfort for itself with a planning process that we came to call “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?

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; homegrown 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 allows them to pursue both A AND B at the same time.

Irrational? Perhaps. Rare? Yes. Difficult? Absolutely. But as F. Scott Fitzgerald pointed out, “The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function.” This is exactly what the visionary companies are able to do.

MYTH 12: Companies become visionary primarily through “vision statements”

Reality: The visionary companies attained 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 identified across the visionary companies.

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, like *Huckleberry Finn* or *Crime and Punishment*. Think of Beethoven’s Ninth Symphony or Shakespeare’s *Henry V*. Think of a beautifully 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—all the pieces working together to create an overall effect—that leads to enduring greatness. And it’s not just the big pieces, but also the itty-bitty details—the turn of phrase, the change in pace at just the right moment, the perfect off-center placement of a window, a subtle expression sculpted into the eyes. As the great Mies van der Rohe put it, “God is in the details.”