INTERVIEW WITH JAMES C. COLLINS

Build It to Last

To get beyond fads and quick fixes, you need to know how enduring organizations are built to stand the test of time.

IN YOUR NEW BOOK, **Built to Last: Successful Habits of Visionary Companies,** *you and coauthor Jerry Porras contend that charismatic "time tellers" aren't as valuable as visionary "clock builders." What do you mean?*

A remarkable leader might be an amazing time teller, a person who knows the exact time and date day or night, but that person would be even more amazing if he or she built a clock that could tell time forever, even after he or she was dead and gone. Having a great idea or being a charismatic leader is "time telling." Building a company that can prosper far beyond the presence of any single leader and through multiple product cycles is "clock building." All individual leaders eventually die, and all "great idea" products eventually become obsolete. But visionary companies prosper over time and generations of active leaders.

The myth of the "great idea" encourages you to obsess on finding a great idea before launching a company. But the great-idea approach shifts your attention away from seeing the company as your ultimate creation. You must shift from seeing the company as a vehicle for the products to seeing the products as a vehicle for the company. We have to embrace the crucial difference between time telling and clock building.

So, is the charismatic leader overrated?

Many executives have felt frustrated by all the books and articles on charismatic leadership. Some have asked us the sensible question, "What if high-profile, charismatic leadership is just not my style?" We assure them that a high-profile charismatic style is not required to successfully shape a visionary company. Indeed, we found that some of the most significant chief executives in history did not have the personality traits of the high-profile, charismatic, visionary leader. We do not deny that the visionary

companies have often had superb individuals atop the organization at critical stages of their history. We know it's unlikely that a company can remain highly visionary with a continuous string of mediocre people at the top. But, as with great products, perhaps the continuity of superb individuals atop visionary companies stems from the companies being outstanding organizations.

Is your book the sequel to **In Search of Excellence?**

I think *In Search of Excellence* is a superb book, but there's a big difference between the Peters and Waterman book and ours. Their book never did a comparison analysis. Their companies had

> *The underlying pattern is this yin and yang of preserve the core and stimulate progress.*

not stood the test of time, which is why many dropped off the map after the book. Our companies stood the test of time. There was a long enough track record that you could say, "Even if they had ups and downs, you can't argue with 100 years of success." When you look at only one set of companies, how do you know what distinguishes them? For example, if we looked at a bunch of great companies, we would find that all of them have buildings, but would that mean that buildings are the critical factor for creating a great company? A building may be important, but it is not a distinguishing factor. So we asked, "What separates the great companies from others that had the same chance but didn't turn out as well?"

And was one answer that great companies set a "Big Hairy Audacious Goal." (BHAG)

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. Like the 1961 moon mission, a BHAG is clear and compelling and serves as a unifying focal point of effort—often creating immense team spirit. It has a clear finish line, so people can know they have achieved the goal.

What are executives finding useful about this book?

We're delighted with the number and level of people who are reading and using the book. Several CEOs are standing in front of their people with a copy of *Built to Last* in hand and saying, "This is the kind of company we are trying to build." At a couple of conferences, the whole theme has been *Built to Last*—complete with banners, T-shirts, bags, binders—and we had nothing to do with it. Such influence and impact make all the work seem worthwhile.

Couldn't the main theme of your book be characterized in the phrase "Preserve the core and stimulate progress"?

Yes, you hit it right on the head. If someone asked me, "What is the underlying alchemy of great organizations?" I would say, "They were better built to preserve the core *and* stimulate progress. That's it. That's the bottom line." But there's a lot that goes into the underlying ideological fabric, the core purpose. There must be a purpose beyond making money. Profitability is a necessary condition for existence and a means to more important ends, but it is not the end in itself for visionary companies. 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.

When Merck & Company reached its 100th birthday, it published a book entitled *Values and Visions: A Merck Century.* The title doesn't even mention what Merck does. Rather it emphasizes that it has been a company guided and inspired by a set of ideals. CEO P. Roy Vagelos articulated those ideals when he said: "Let's remember that our business success means victory against disease. We're in the business of preserving and improving human life."

In the simple concept "preserve the core and stimulate progress" is a tremendous amount of complexity. The phrase was very hard to coin. Initially we didn't have that idea. All we had was a ton of data to sift through and ask, "What's the underlying pattern?"

Why is the yin and yang so difficult for companies to master?

I think there are two reasons. The first is many of us are brutalized by the tyranny of the OR. Listen to conversations and notice how often it creeps in. For example, people will talk about how values-based business is evolving, but they will emphasize only one side of the coin. They'll say: values, *not* profits. That's an OR argument. Likewise, the argument that a company should have no responsibility, other than to maximize shareholder wealth, is an OR view. People tend to lean toward

products and customers.

4. Context participation. In context participation, people have influence and decision-making power that extend beyond their own sphere of activity, helping to set larger budgets, influence staffing decisions around them, select supplies and the like.

5. Vision participation. In vision participation, people are involved in setting direction, determining goals and planning strategies for the organization as a whole.

The age of participation is introducing a way of looking at how power is distributed across these five categories. In the past, operational staff were largely limited in their activities. In the new world, all jobs include activities across all five categories, with varying degrees of intensity.

In an authoritarian system, a worker's job category determines the degree of involvement he or she is permitted. In contrast, integration and interdependence are major characteristics of the participative model, and there are no sharply defined limits. Everyone may become involved to a greater or lesser extent at every level, with managerial staff emphasizing context and vision participation and operational staff focusing on activity and role involvement. But everyone participates in decision-making at all levels, and thus needs to have an overall picture of the business and an understanding of his or her individual role in it.

The transition from restricted involvement to full participation normally takes place in two phases. In the first, people who have previously done only what they were told start making decisions regarding their own tasks and helping to set goals in their immediate areas. As the change process gathers momentum, competencies and confidence increase until the second phase occurs: their influence begins to be felt beyond the confines of their own sphere of activity and grows to the point where they are contributing meaningfully in areas of concern to the organization as a whole.

Stakeholder Participation

Interweaving the warp of the five categories of participation is the woof of the stakeholders. All have a special role and emphasis to make the enterprise work and achieve the benefits of high performance involvement.

• *Senior executives* are responsible for setting the participative process in motion and ensuring that the momentum is sustained by trimming away obsolete hierarchical and bureaucratic impediments and unnecessary controls. Their role is to consolidate strategic goals, keep the organization focused on long-range priorities,

continuously assess progress, and see to it that relevant, easily understood information is freely available. Participative executives listen a lot and are receptive, and they encourage questioning, frankness, and diverse views.

• *Specialist staff* traditionally wielded considerable power in their own areas of expertise—finance, technology, communication, marketing, human resource management, or whatever. In a participative organization, responsibility for budgeting, recruiting, keeping customers happy, or even developing product are no longer the exclusive domain of experts. The specialists now become standard setters and educators who develop basic functional skills in the workforce. They continue to do the high-end thinking while much of the day-to-day functional work is taken over by operational workers.

• *Middle managers'* main function in the old structure was to channel directives emanating from on high to the lower ranks

and to ensure they were carried out. They are now facilitators and troubleshooters. Their responsibilities include promoting the development of personal skills, self-management and teamwork; and ensuring good relationships with suppliers and customers as well as quality of production. Excessive layers of management have been thinned out, and many supervisory and middle management positions have disappeared as full-service worker teams take responsibility for meeting standards and productivity goals.

• *Frontline workers* have a far broader role today. They make decisions regarding the equipment and procedures they use and the recruitment of team members. They monitor quality; they evaluate, innovate and contribute their ideas and experience. They are involved in determining what the customers need and take the initiatives necessary to satisfy those needs. They have a say in matters that used to be the exclusive domain of top executives. They are treated as thinking adults and respond accordingly.

• *Labor union officials and employer representatives* are no longer separated by a deep

divide. Instead of the traditional power play and win-lose bargaining from opposing positions, they sit at the same side of the table and use their time and energy productively to everyone's advantage. As insiders rather than outsiders, union officials evaluate business processes, recommend improvements, and assist with the task of developing worker skills.

• *Suppliers* are an integral part of the drive for speedy production cycles, product excellence, and value for money to the end user. The quality movement has been partly responsible for this: fast cycle times require excellent supplier-customer relationships. Suppliers are now involved in planning processes. They give input on product design and may even be connected to the internal information and purchasing systems, giving access to their own systems in return.

• *Customers* of the participative organization are ceasing to be demanding despots and becoming partners who share responsibility for meeting their own needs. They specify their requirements and give feedback in the form of criticism, approval, and suggestions. They may even be part of the team designing the products and services they buy. They may also enter into technology or resource-sharing partnerships with the organization, link systems, or lend staff where appropriate. The suppliers and customers acknowledge their interdependence interests and form service partnerships to optimize value-added to end products and services.

Participation is a holistic system that cannot be implemented piecemeal or step by step. It should not be introduced only in some areas and not in others, nor should there be a bottom-up approach where the process is initiated at the base of the corporate pyramid with the idea of allowing it to seep up by degrees. The first steps of the transition should be taken at all levels simultaneously and include the full spectrum of stakeholders.

While leadership remains the prerogative of senior management, the old division between formulating strategy and implementing it blurs in this cooperative and dynamic environment. All levels are interconnected in a network of relationships and processes, allowing for a free flow of ideas. Creativity and initiative are nurtured and suggestions originating in any area may be taken up in any other area.   **EE**

Patricia McLagan is a leader, consultant, and writer in the areas of change, leadership, and the new governance. Christo Nel is co-founder of the Consultative Business Movement, and a leading voice for change in South Africa. Pat and Christo are co-directors of the Democracy and Work Institute in South Africa (011 2711-460-1558).

one end of the continuum or the other, and so they frame the world in an OR. That dichotomous view of the world is part of Western culture.

The second answer is, even if you are comfortable accepting that things can be AND, it's hard to live the AND. For example, writing our book took six years of incredibly hard work. In the last year, there was a time that I didn't take a day off for six straight months. So, living the AND is hard—it means you have to carry almost double the workload.

Isn't it also tough to find those dual attributes in a single individual or even in a leadership-management team?

It is rare to find them in any individual or across a team. The folks who put companies together seem to be more comfortable with these paradoxes than others. For example, David Packer of Hewlett-Packard almost contradicts himself when he says, "If we continue the dedication that has carried us through the first 50 years, we will surely continue to exist over the next 50 years." And then he adds, "Actions taken which result in reducing short-term profits in the hope of increasing long-term profit are very seldom successful. Such actions are almost always the result of wishful thinking and almost always fail to achieve an overall optimum performance." On the one hand, he says, "Build on the 50 years," and on the other he says, "I don't want anyone compromising the short term for the long term." If you asked him, "Which is it, Dave?" he would say, "Both." You can bet that all of those who worked with David at HP felt relentless pressure to achieve both long-term and short-term performance. So you find people, like Packer, who are comfortable with what Winston Churchill said: "I'd rather be right than consistent."

Now, in teams I encourage people to embrace the AND. The way to do it is to put an OR sign on your wall and put a line through it. Put the sign in conference rooms, on every wall, so when people are in meetings they notice when they are trapped in the OR instead of embracing the AND. Instead of wasting time and intellectual energy to argue which is more optimal, A OR B, they can apply the creative process and say, "Let's generate options for how we can achieve A AND B." I would argue that the creative approach is more fruitful, and will move you forward faster.

You seem to be espousing the Jeffersonian idea of the practical idealist.

Exactly. Thomas Jefferson is a great example of the AND. Here's a guy who liked nothing more than hanging out in his library with his books; he would have been a happy man if he could have stayed there, looking out the window and reading all day. At the same time, he operated in politics, which is the art of the possible, the ultimate pragmatic pursuit. So Jefferson lived the AND.

Aren't all CEOs in a political environment where they have the vision and ideals and yet have the pragmatic ability to work out compromises and move forward?

Exactly. They need to embrace both practical and idealistic views at the same time. It requires a certain set of skills.

When assembling a board of directors or a management team, I think it is very useful to ask, "How can we make the team represent the AND?"

For example, maybe we are a technology-driven company, but maybe what we should do is to have technologists AND marketing folks on the team so we don't have to decide if we want a market-driven product OR a technology-driven product. We can say we want BOTH a market-responsive product and a tech-

nology-responsive product. When you look at your board of directors, you might put both Anita Roddick and Rush Limbaugh on the board. The debate would be stimulating.

Once Alfred Sloan was in a board meeting, making an important decision. He said, "I take it that everyone is in basic agreement with this decision." And everyone nodded their heads in assent. Sloan looked around and said, "Then I suggest we postpone the decision. Until we have some disagreement, we don't understand the problem." What he was doing was cultivating an AND culture. Sloan had his flaws, but one of his great strengths was bringing together people who represented the AND. If you don't have opposing forces, you're probably not going to make a good decision.

What exactly is vision? How can executives do visionary things?

The term "vision" is used in many ways. Some view vision as having a crystal-ball picture of the future marketplace. Others think in terms of a technology or product vision. Still others emphasize a vision of the organization—values, purpose, mission, goals, and images of an ideal workplace.

What bothers me the most is the image of something called a "visionary leader." When we looked at the 3M company we concluded that 3M represented something beyond visionary leadership, visionary products, visionary market insights, or inspiring mission statements. It could best be described as a visionary company.

Visionary companies are premier institutions—the crown jewels—of their industries. Visionary companies prosper over time, through multiple product life cycles and multiple generations of active leaders. Of course, visionary companies are not without problems, but they display a remarkable ability to bounce back from adversity. As a result, visionary companies attain extraordinary long-term performance and weave themselves into the very fabric of society.

As people get into ruts and routines, doesn't the duality that you are espousing become more difficult?

What has happened with this great jolt to corporate structure, the reengineering processes, is that we have shot over to just the yang part. What we have going on is an OR response to an AND world. People are saying, "The world has changed, and so we now have to throw out everything. We have to reengineer our basic values." And my response to that is, "No, no, no. If you follow that all the way out then you throw out the Declaration of Independence, throw out the Bill of Rights, and the Gettysburg Address."

Aren't a lot of people trying to do just that?

Exactly. So what you have going on in the world is an OR backlash when what we need is an AND response to the world. A view that says, "Yes, we need to change. Yes, we need to adjust our structure. Yes, we need to learn to deal with the increased competitive world we face. But that's only one side of the coin. We also need to know how to preserve our soul and retain a sense of cohesion and identity through the whole process. We need to do both." What we have right now is a backlash that is only one side, and it's an enormously dangerous backlash.

The main message from our book is the following: *The response to a changing world should not be to first ask, "How should we change?" The response to a changing world should be to first ask, "What do we stand for that should never change?" and then figure out how to change everything else.* **EE**

James Collins operates a management education and consulting practice based in Palo Alto, CA. (415) 424-0208. He is the coauthor of Beyond Entrepreneurship *and* Built to Last. *He is a recipient of the Distinguished Teacher Award at Stanford University Graduate School of Business.*

BARBARA LAWTON

Times of Transition

Appreciating the on-going developmental process is essential to integrating new and old tools and to receiving further advances.

A MAJOR SHIFT IS TAKING PLACE. The advent of cyberspace, coupled with inexpensive and massive computing capability, is dramatically changing our lives. Alvin Toffler calls it the Third Wave in human history.

The third wave brings full globalization and a shift in the critical resources of the enterprise, increasing the intensity and changing the nature of competition.

As technology and the basis of competition evolve, so does the nature of work and how it is managed. Peter Drucker aptly labels this emerging era the Knowledge Age. Today, knowledge is used to create value for the customer in new ways. Competitive advantage comes from the ability to acquire, develop, share and deploy knowledge.

There is an urgent need to rethink the nature of work and management. Yet a call for change is too often met with a sentiment ranging from ambivalence to outright pessimism. Virtually no organization has emerged unscathed from the method-of-the-month mania.

Competing Demands

Most managers are challenged by the competing demands to improve performance and to change the business. The poor track record of past efforts creates a cynicism regarding the ability to change, making management's job more difficult. If people decide "this too shall pass," the effect of any new effort is merely a depletion of financial and human resources and an increasing resistance to future change, often resulting in a needless trail of human carnage, from the damaged careers of dedicated leaders to the exodus of frustrated change agents.

The trauma of our experience is rooted in a misunderstanding of the magnitude and nature of transformational change, the means of accomplishment, and our expectations of it. This change is not a mere fine-tuning of today's roles, structures, and methods, but constitutes the very grist of the third wave transition. It alters our view of the world and our personal role and rules for success within it.

Our traditional approach to change is anchored in the mind-set of the industrial era. We seek a solution that will take us from our current state to some future, fixed state in which we are finished with the business of change and able to return to the "real" work of the organization. We thus burden individuals and organizations with the impossible.

What has fueled the management method-of-the-month mania and eroded a constancy of purpose needed to navi-

> *Should the computer, our car, or even our toaster give out, we are instantaneously dependent upon others.*

gate through the turbulence of our time? It is the search for a best answer, a best way of being that can be done with a defined and bounded intervention. Our experience tells us that the rate of change will only accelerate and bring increasing complexity. Consequently, there is no stable, equilibrium marketplace, no final solution, and no best answer for competitiveness in the new economic age.

There is, however, another path into the Knowledge Age, one that enhances critical capacity and capability for future change. This path begins with an evolutionary view of change. Viewing history through the lens of evolution, we see that the various management approaches—from employee involvement to statistical process control to TQM to reengineering—are all vehicles to build and tap employee knowledge to improve the way work is done and to enhance value for the customer.

While evolution is fueled by our actions, it is beyond individual control. Often we try to stop change to preserve a comfortable and advantageous situation. We steadfastly cling to solutions of the past and exhaust our people and resources as we work harder to make old answers work in a new environment. Only at the brink of failure do we let go of the past and seek rapid, directed, and controlled revolutionary change.

We can't control the process of evolution, but we can affect its course. We can acquire, develop, share and deploy knowledge to anticipate the direction of change and proactively shape its advance. Through the lens of knowledge building, the stream of improvement approaches serve as learning trials and practice arenas for management methods. Application of one method can create a foundation of experience that facilitates successful deployment of new and more powerful methods.

Change management is then as much for learning as for accomplishing traditional results. Rather than reward and punish based on the results of change efforts, ask "What have we learned about the process of change? About ourselves? How does this method help us leverage our strengths in this new economic age?"

Five Basic Principles

An understanding of five principles gives coherence to past initiatives and to the morass of new improvement approaches—and, combined with hands-on experience, enables management to selectively implement new approaches and take a proactive position to shape the evolution of their organization and of the marketplace.

1. The ongoing success of any free market enterprise is ultimately related to its ability to create value, something the consumer is willing to pay for. Through our actions we continually raise customer expectations and change what they deem valuable. As W. Edwards Deming put it, "The customer only expects what you and your competitors have led him to expect." Successful firms stay ahead of the customer by understanding emerging needs, anticipating what will be deemed valuable, and developing internal competencies and external products to fulfill those needs.

2. Our world is a continually evolving and increasingly interdependent system. Until recently, we lived in small communities where it was easy to see that our personal quality of life was tightly linked to the values, behaviors and success of our neighbors. This visible and self-evident connection provided a context for decision-making. It allowed us to plan and to judge the short- and long-term consequences of our intended actions.

Today the world is a highly interdependent system, extending the reach of our decisions and increasing the influence of others upon us. The nature of the interdependence, however, has changed. It is less personal, more structural, and less visible. As we sit at our personal computers and