

Agenda item 8 – IALA STRATEGY

8.1 Development of an IALA Strategy

8.1.4 Building Your Company's Vision

Note by the Secretariat

1 SUMMARY

This article from the Harvard Business Review of September-October 1996 was one of the references used by Mr Bjørn B Pedersen in his work to assist the Secretariat in the creation of a draft IALA Strategy.

2 ACTION REQUESTED

The Council is requested to Note the document.

Building Your Company's Vision

by James C. Collins and Jerry I. Porras



Harvard Business Review

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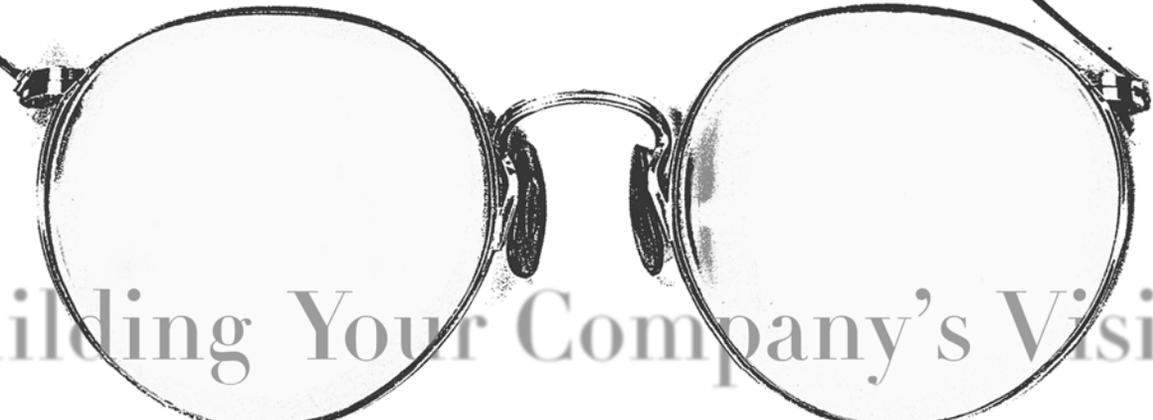
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Building Your Company's Vision

by James C. Collins and Jerry I. Porras

*We shall not cease from exploration
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.*

T.S. Eliot, *Four Quartets*

Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. The dynamic of preserving the core while stimulating progress is the reason that companies such as Hewlett-Packard, 3M, Johnson & Johnson, Procter & Gamble, Merck, Sony, Motorola, and Nordstrom became elite institutions able to renew themselves and achieve superior long-term performance. Hewlett-Packard employees have long known that radical change in operating practices, cultural norms, and business strategies does not mean losing the spirit of the HP Way – the company's core principles. Johnson & Johnson continually ques-

tions its structure and revamps its processes while preserving the ideals embodied in its credo. In 1996, 3M sold off several of its large mature businesses – a dramatic move that surprised the business press – to refocus on its enduring core purpose of solving unsolved problems innovatively. We studied companies such as these in our research for *Built to Last: Successful Habits of Visionary Companies* and found that they have outperformed the general stock market by a factor of 12 since 1925.

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Truly great companies understand the difference between what should never change and what should be open for change, between what is genuinely sacred and what is not. This rare ability to manage continuity and change – requiring a consciously practiced discipline – is closely linked to the ability to develop a vision. Vision provides guidance about what core to preserve and what future to stimulate progress toward. But *vision* has become one of the most overused and least understood words in the language, conjuring up different images for different people: of deeply held values, outstanding achievement, societal bonds, exhilarating goals, motivating forces, or *raison d'être*. We recommend a conceptual framework to define vision, add clarity and rigor to the vague and fuzzy concepts swirling around that trendy term, and give practical guidance for articulating a coherent vision within an organization. It is a prescriptive framework rooted in six years of research and refined and tested by our ongoing work with executives from a great variety of organizations around the world.

A well-conceived vision consists of two major components: *core ideology* and *envisioned future*. (See the exhibit “Articulating a Vision.”) Core ideology, the yin in our scheme, defines what we stand for and why we exist. Yin is unchanging and complements yang, the envisioned future. The envisioned future is what we aspire to become, to achieve, to create – something that will require significant change and progress to attain.

Core Ideology

Core ideology defines the enduring character of an organization – a consistent identity that transcends product or market life cycles, technological breakthroughs, management fads, and individual leaders. In fact, the most lasting and significant contribution of those who build visionary companies is the core ideology. As Bill Hewlett said about his longtime friend and business partner David Packard upon Packard's death not long ago, “As far as the company is concerned, the greatest thing he left behind him was a code of ethics known as the HP Way.” HP's core ideology, which has guided the company since its inception more than 50 years ago, includes a deep respect for the individual, a dedication to affordable quality and reliability, a commitment to community responsibility (Packard himself bequeathed his \$4.3 billion of Hewlett-Packard 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 such as David Packard, Masaru Ibuka of Sony, George Merck of Merck, William McKnight of 3M, and Paul Galvin of Motorola understood that it is more important to know who you are than where you are going, for where you are going will change as the world around you changes. Leaders die, products become obsolete, markets change, new technologies emerge, and management fads come and go, but core ideology in a great company endures as a source of guidance and inspiration.

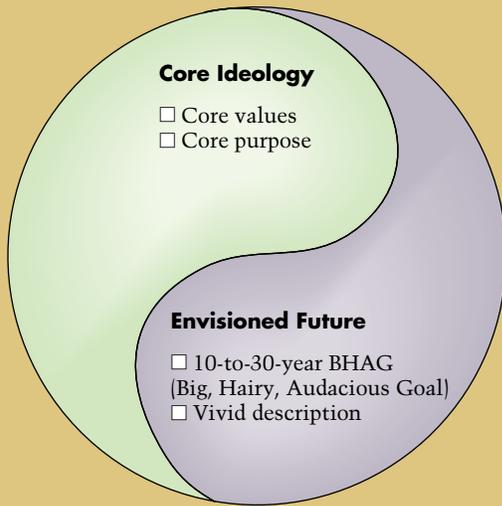
Core ideology provides the glue that holds an organization together as it grows, decentralizes, diversifies, expands globally, and develops workplace diversity. Think of it as analogous to the principles of Judaism that held the Jewish people together for centuries without a homeland, even as they spread throughout the Diaspora. Or think of the truths held to be self-evident in the Declaration of Independence, or the enduring ideals and principles of the scientific community that bond scientists from every nationality together in the common purpose of advancing human knowledge. Any effective vision must embody the core ideology of the organization, which in turn consists of two distinct parts: core values, a system of guiding principles and tenets; and core purpose, the organization's most fundamental reason for existence.

Core Values. Core values are the essential and enduring tenets of an organization. A small set of timeless guiding principles, core values require no external justification; they have *intrinsic* value and importance to those inside the organization. The Walt Disney Company's core values of imagination and wholesomeness stem not from market requirements but from the founder's inner belief that imagination and wholesomeness should be nurtured for their own sake. William Procter and James Gamble didn't instill in P&G's culture a focus on product excellence merely as a strategy for success

Core ideology provides the glue that holds an organization together through time.

but as an almost religious tenet. And that value has been passed down for more than 15 decades by P&G people. Service to the customer – even to the point of subservience – is a way of life at Nordstrom that traces its roots back to 1901, eight decades before

Articulating a Vision



customer service programs became stylish. For Bill Hewlett and David Packard, respect for the individual was first and foremost a deep personal value; they didn't get it from a book or hear it from a management guru. And Ralph S. Larsen, CEO of Johnson & Johnson, puts 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 define for us what we stand for, and we would hold them even if they became a competitive *disadvantage* in certain situations."

The point is that a 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 universally right set of core values. A company need not have as its core value customer service (Sony doesn't) or respect for the individual (Disney doesn't) or quality (Wal-Mart Stores doesn't) or market focus (HP doesn't) or teamwork (Nordstrom doesn't). A company might have operating practices and business strategies around those qualities without having them at the essence of its being. Furthermore, great companies need not have likable or humanistic core values, although many do. The key is not *what* core values an organization has but that it has core values at all.

Companies tend to have only a few core values, usually between three and five. In fact, we found that none of the visionary companies we studied in our book had more than five: most had only three or four. (See the insert "Core Values Are a Company's Essential Tenets.") And, indeed, we should expect that. Only a few values can be truly *core*—that is, so

fundamental and deeply held that they will change seldom, if ever.

To identify the core values of your own organization, push with relentless honesty to define what values are truly central. If you articulate more than five or six, chances are that you are confusing core values (which do not change) with operating practices, business strategies, or cultural norms (which should be open to change). Remember, the 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 still keep it? If you can't honestly answer yes, then the value is not core and should be dropped from consideration.

A high-technology company 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 difference in our markets. Suppose the only thing that matters is sheer speed and horsepower but not quality. Would we still want to put quality on our list of core values?" The members of the management team looked around at one another and finally said no. Quality stayed in the *strategy* of the company, and quality-improvement programs remained in place as a mechanism for stimulating progress; but quality did not make the list of core values.

The same group of executives then wrestled with leading-edge innovation as a core value. The CEO asked, "Would we keep innovation on the list as a core value, no matter how the world around us changed?" This time, the management team gave a resounding yes. The managers' outlook might be summarized as, "We always want to do leading-edge innovation. That's who we are. It's really important to us and always will be. No matter what. And if our current markets don't value it, we will find markets that do." Leading-edge innovation went on the list and will stay there. A company should not change its core values in response to market changes; rather, it should change markets, if necessary, to remain true to its core values.

Who should be involved in articulating the core values varies with the size, age, and geographic dispersion of the company, but in many situations we have recommended what we call a *Mars Group*. It works like this: Imagine that you've been asked to re-create the very best attributes of your organization on another planet but you have seats on the rocket ship for only five to seven people. Whom should you send? Most likely, you'll choose the people who have a gut-level understanding of your core values, the highest level of credibility with their peers, and the highest levels of competence.

Core Values Are a Company's Essential Tenets

Merck

- Corporate social responsibility
- Unequivocal excellence in all aspects of the company
- Science-based innovation
- Honesty and integrity
- Profit, but profit from work that benefits humanity

Nordstrom

- Service to the customer above all else
- Hard work and individual productivity
- Never being satisfied
- Excellence in reputation; being part of something special

Philip Morris

- The right to freedom of choice
- Winning—beating others in a good fight

- Encouraging individual initiative
- Opportunity based on merit; no one is entitled to anything
- Hard work and continuous self-improvement

Sony

- Elevation of the Japanese culture and national status
- Being a pioneer—not following others; doing the impossible
- Encouraging individual ability and creativity

Walt Disney

- No cynicism
- Nurturing and promulgation of “wholesome American values”
- Creativity, dreams, and imagination
- Fanatical attention to consistency and detail
- Preservation and control of the Disney magic

We'll often ask people brought together to work on core values to nominate a Mars Group of five to seven individuals (not necessarily all from the assembled group). Invariably, they end up selecting highly credible representatives who do a super job of articulating the core values precisely because they are exemplars of those values—a representative slice of the company's genetic code.

Even global organizations composed of people from widely diverse cultures can identify a set of shared core values. The secret is to work from the individual to the organization. People involved in articulating the core values need to answer several questions: What core values do you personally bring to your work? (These should be so fundamental that you would hold them regardless of whether or not they were rewarded.) What would you tell your children are the core values that you hold at work and that you hope *they* will hold 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 those core values? Can you envision them being as valid for you 100 years from now as they are today? Would you want to hold those 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 different line of work, what core values would you build into the new organization regardless of its industry? The last three questions are particularly important because they make the crucial distinction between enduring core values

that should not change and practices and strategies that should be changing all the time.

Core Purpose. Core purpose, the second part of core ideology, is the organization's reason for being. An effective purpose reflects people's idealistic motivations for doing the company's work. It doesn't just describe the organization's output or target customers; it captures the soul of the organization. (See the insert “Core Purpose Is a Company's Reason for Being.”) Purpose, as illustrated by a speech David Packard gave to HP employees in 1960, gets at the deeper reasons for an organization's existence beyond just making money. Packard said,

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. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so they are able to accomplish something collectively 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] 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—generally to do something which is of value.¹

Purpose (which should last at least 100 years) should not be confused with specific goals or busi-

ness strategies (which should change many times in 100 years). Whereas you might achieve a goal or complete a strategy, you cannot fulfill a purpose; it is like a guiding star on the horizon – forever pursued but never reached. Yet although purpose itself does not change, it does inspire change. The very fact that purpose can never be fully realized means that an organization can never stop stimulating change and progress.

In identifying purpose, some companies make the mistake of simply describing their current product lines or customer segments. We do not consider the following statement to reflect an effective purpose: "We exist to fulfill our government charter and participate in the secondary mortgage market by packaging mortgages into investment securities." The statement is merely descriptive. A far more effective statement of purpose would be that expressed by the executives of the Federal National Mortgage Association, Fannie Mae: "To strengthen the social fabric by continually democratizing home ownership." The secondary mortgage market as we know it might not even exist in 100 years, but strengthening the social fabric by continually democratizing home ownership can be an enduring purpose, no matter 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 de-

velop new systems for reducing mortgage underwriting costs by 40% in five years; programs to eliminate discrimination in the lending process (backed by \$5 billion in underwriting experiments); and an audacious goal to provide, by the year 2000, \$1 trillion targeted at 10 million families that had traditionally been shut out of home ownership – minorities, immigrants, and low-income groups.

Similarly, 3M defines its purpose not in terms of adhesives and abrasives but as the perpetual quest to solve unsolved problems innovatively – a purpose

Core ideology consists of core values and core purpose. Core purpose is a *raison d'être*, not a goal or business strategy.

that is always leading 3M into new fields. McKinsey & Company's purpose is not to do management consulting but to help corporations and governments be more successful: in 100 years, it might involve methods other than consulting. Hewlett-Packard doesn't exist to make electronic test and measurement equipment but to make technical contributions that improve people's lives – a purpose that has led the company far afield from its origins in electronic instruments. Imagine if Walt

Core Purpose Is a Company's Reason for Being

3M: To solve unsolved problems innovatively

Cargill: To improve the standard of living around the world

Fannie Mae: To strengthen the social fabric by continually democratizing home ownership

Hewlett-Packard: To make technical contributions for the advancement and welfare of humanity

Lost Arrow Corporation: To be a role model and a tool for social change

Pacific Theatres: To provide a place for people to flourish and to enhance the community

Mary Kay Cosmetics: To give unlimited opportunity to women

McKinsey & Company: To help leading corporations and governments be more successful

Merck: To preserve and improve human life

Nike: To experience the emotion of competition, winning, and crushing competitors

Sony: To experience the joy of advancing and applying technology for the benefit of the public

Telecare Corporation: To help people with mental impairments realize their full potential

Wal-Mart: To give ordinary folk the chance to buy the same things as rich people

Walt Disney: To make people happy

Disney had conceived of his company's purpose as to make cartoons, rather than to make people happy; we probably wouldn't have Mickey Mouse, Disneyland, EPCOT Center, or the Anaheim Mighty Ducks Hockey Team.

One powerful method for getting 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? five times. After a few whys, you'll find that you're getting down to the fundamental purpose of the organization.

We used this method to deepen and enrich a discussion about purpose when we worked with a certain market-research company. The executive team first met for several hours and generated the following statement of purpose for their organization: To provide the best market-research data available. We then asked the following question: Why is it important to provide the best market-research data available? After some discussion, the executives answered in a way that reflected a deeper sense of their organization's purpose: To provide the best market-research data available so that our customers will understand their markets better than they could otherwise. A further discussion let team members realize that their sense of self-worth came not just from helping customers understand their markets better but also from making a *contribution* to their customers' success. This introspection eventually 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 Will it sell? but with the question Will it make a contribution to our customers' success?

The five whys can help companies in any industry frame their work in a more meaningful way. An asphalt and gravel company might begin by saying, We make gravel and asphalt products. After a few whys, it could conclude that making asphalt and gravel is important because the quality of the infrastructure plays a vital role in people's safety and experience; because driving on a pitted road is annoying and dangerous; because 747s cannot land safely on runways built with poor workmanship or inferior concrete; because buildings with substandard materials weaken with time and crumble in earthquakes. From such introspection may emerge this purpose: To make people's lives better by improving the quality of man-made structures. With a sense of purpose very much along those lines, Gran-

ite Rock Company of Watsonville, California, won the Malcolm Baldrige National Quality Award—not an easy feat for a small rock quarry and asphalt company. And Granite Rock has gone on to be one of the most progressive and exciting companies we've encountered in *any* industry.

Notice that none of the core purposes fall into the category "maximize shareholder wealth." A primary role of core purpose is to guide and inspire.

Listen to people in truly great companies talk about their achievements—you will hear little about earnings per share.

Maximizing shareholder wealth does not inspire people at all levels of an organization, and it provides precious little guidance. Maximizing shareholder wealth is the standard off-the-shelf purpose for those organizations that have not yet identified their true core purpose. It is a substitute—and a weak one at that.

When people in great organizations talk about their achievements, they say very little about earnings per share. Motorola people talk about impressive quality improvements and the effect of the products they create on the world. Hewlett-Packard people talk about their technical contributions to the marketplace. Nordstrom people talk about heroic customer service and remarkable individual performance by star salespeople. When a Boeing engineer talks about launching an exciting and revolutionary new aircraft, she does not 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 merely maximizing shareholder wealth is to play the "Random Corporate Serial Killer" game. It works like this: Suppose you could sell the company to someone who would pay a price that everyone inside and outside the company agrees is more than fair (even with a very generous set of assumptions about the expected future cash flows of the company). Suppose further that this buyer would guarantee stable employment for all employees at the same pay scale after the purchase but with no guarantee that those jobs would be in the same industry. Finally, suppose the buyer plans to kill the company after the purchase—its products or services would be discontinued, its operations would

be shut down, its brand names would be shelved forever, and so on. The company would utterly and completely cease to exist. Would you accept the offer? Why or why not? What would be lost if the company ceased to exist? Why is it important that the company continue to exist? We've found this exercise to be very powerful for helping hard-nosed, financially focused executives reflect on their organization's deeper reasons for being.

Another approach is to ask each member of the Mars Group, How could we frame the purpose of this organization so that if you woke up tomorrow morning with enough money in the bank to retire, you would nevertheless keep working here? What deeper sense of purpose would motivate you to continue to dedicate your precious creative energies to this company's efforts?

As they move into the twenty-first century, companies will need to draw on the full creative energy and talent of their people. But why should people give full measure? 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. Confronted with an increasingly mobile society, cynicism about corporate life, and an expanding entrepreneurial segment of the economy, companies more than ever need to have a clear understanding of their purpose in order to make work meaningful and thereby attract, motivate, and retain outstanding people.

Discovering Core Ideology

You do not create or set core ideology. You *discover* core ideology. You do not deduce it by looking at the external environment. You understand it by looking inside. Ideology has to be authentic. You cannot fake it. Discovering core ideology is not an intellectual exercise. Do not ask, What core values

You discover core ideology by looking inside. It has to be authentic. You can't fake it.

should we hold? Ask instead, What core values do we truly and passionately hold? You should not confuse values that you think the organization ought to have – but does not – with authentic core values. To do so would create cynicism throughout the organization. ("Who're they trying to kid? We

all know that isn't a core value around here!") Aspirations are more appropriate as part of your envisioned future or as part of your strategy, not as part of the core ideology. However, authentic core values that have weakened over time can be considered a legitimate part of the core ideology – as long as you acknowledge to the organization that you must work hard to revive them.

Also be clear that the role of core ideology is to guide and inspire, not to differentiate. 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 Hewlett-Packard. 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 as intense a culture around that value as Nordstrom. Many companies could have the core value of innovation, but few create the powerful alignment mechanisms that stimulate the innovation we see at 3M. The authenticity, the discipline, and the consistency with which the ideology is lived – not the content of the ideology – differentiate visionary companies from the rest of the pack.

Core ideology needs to be meaningful and inspirational only to people inside the organization; it need not be exciting to outsiders. Why not? Because it is the people inside the organization who need to commit to the organizational ideology over the long term. Core ideology can also play a role in determining who *is* inside and who is not. A clear and well-articulated ideology attracts to the company people whose personal values are compatible with the company's core values; conversely, it repels those whose personal values are incompatible. You cannot impose new core values or purpose on people. Nor are core values and purpose things people can buy into. Executives often ask, How do we get people to share our core ideology? You don't. You can't. Instead, find people who are predisposed to share your core values and purpose; attract and retain those people; and let those who do not share your core values go elsewhere. Indeed, the very process of articulating core ideology may cause some people to leave when

they realize that they are not personally compatible with the organization's core. Welcome that outcome. It is certainly desirable to retain within the core ideology a diversity of people and viewpoints. People who share the same core values and purpose do not necessarily all think or look the same.

Don't confuse core ideology itself with core-ideology statements. A company can have a very strong core ideology without a formal statement. For example, Nike has not (to our knowledge) formally articulated a statement of its core purpose. Yet, according to our observations, Nike has a powerful core purpose that permeates the entire organization: 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 office complex. Giant photos of Nike heroes cover the walls, bronze plaques of Nike athletes hang along the Nike Walk of Fame, statues of Nike athletes stand alongside the running track that rings the campus, and buildings honor champions such as Olympic marathoner Joan Benoit, basketball superstar Michael Jordan, and tennis pro John McEnroe. Nike people who do not feel stimulated by the competitive spirit and the urge to be ferocious simply do not last long in the culture. Even the company's name reflects a sense of competition: Nike is the Greek goddess of victory. Thus, although Nike has not formally articulated its purpose, it clearly has a strong one.

Identifying core values and purpose is therefore not an exercise in wordsmithery. Indeed, an organization will generate a variety of statements over time to describe the core ideology. In Hewlett-Packard's archives, we found more than half a dozen distinct versions of the HP Way, drafted by David Packard between 1956 and 1972. All versions stated the same principles, but the words used varied depending on the era and the circumstances. Similarly, Sony's core ideology has been stated many different ways over the company's history. At its founding, Masaru Ibuka described two key elements of Sony's ideology: "We shall welcome technical difficulties and focus on highly sophisticated technical products that have great usefulness for society regardless of the quantity involved; we shall place our main emphasis on ability, performance, and personal character so that each individual can show the best in ability and skill."² Four decades later, this same concept appeared in a statement of core ideology called Sony Pioneer Spirit: "Sony is a pioneer and never intends to follow others. Through progress, Sony wants to serve the whole world. It shall be always a seeker of the un-

Big, Hairy, Audacious Goals Aid Long-Term Vision

Target BHAGs can be quantitative or qualitative

- Become a \$125 billion company by the year 2000 (Wal-Mart, 1990)
- Democratize the automobile (Ford Motor Company, early 1900s)
- Become the company most known for changing the worldwide poor-quality image of Japanese products (Sony, early 1950s)
- Become the most powerful, the most serviceable, the most far-reaching world financial 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 David-versus-Goliath thinking

- Knock off RJR as the number one tobacco company in the world (Philip Morris, 1950s)
- Crush Adidas (Nike, 1960s)
- Yamaha wo tsubusu!* We will destroy Yamaha! (Honda, 1970s)

Role-model BHAGs suit up-and-coming organizations

- Become the Nike of the cycling industry (Giro Sport Design, 1986)
- Become as respected in 20 years as Hewlett-Packard is today (Watkins-Johnson, 1996)
- Become the Harvard of the West (Stanford University, 1940s)

Internal-transformation BHAGs suit large, established organizations

- Become number one or number two in every market we serve and revolutionize this company to have the strengths of a big company combined with the leanness and agility of a small company (General Electric Company, 1980s)
- Transform this company from a defense contractor into the best diversified high-technology company in the world (Rockwell, 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)

known.... 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 Same core values, different words.

You should therefore focus on getting the content right – on capturing the essence of the core values and purpose. 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, we often suggest that once the core has been identified, managers should generate their own statements of the core values and purpose to share with their groups.

Finally, don't confuse core ideology with the concept of core competence. Core competence is a strategic concept that defines 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 well aligned with a company's core ideology and are often rooted in it; but they are not the same thing. For example, Sony has a core competence of miniaturization—a strength that can be strategically applied to a wide array of products and markets. But it 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 will still have the same core values described in the Sony Pioneer Spirit and the same fundamental reason for being—namely, to advance technology for the benefit of the general public. In a visionary company like Sony, core competencies change over the decades, whereas core ideology does not.

Once you are clear about the core ideology, you should feel free to change absolutely *anything* that is not part of it. From then on, whenever someone says something should not change because “it's part of our culture” or “we've always done it that way” or any such excuse, mention this simple rule: If it's not core, it's up for change. The strong version of the rule is, *If it's not core, change it!* Articulating core ideology is just a starting point, however. You also must determine what type of progress you want to stimulate.

Envisioned Future

The second primary component of the vision framework is *envisioned future*. It consists of two parts: a 10-to-30-year audacious goal plus vivid descriptions of what it will be like to achieve the goal. We recognize that the phrase *envisioned future* is

somewhat paradoxical. On the one hand, it conveys concreteness – something visible, vivid, and real. On the other hand, it involves a time yet unrealized—with its dreams, hopes, and aspirations.

Vision-level BHAG. We found in our research that visionary companies often use bold missions—or what we prefer to call *BHAGs* (pronounced

Companies need an audacious 10-to-30-year goal to progress toward an envisioned future.

BEE-hags and shorthand for Big, Hairy, Audacious Goals)—as a powerful way to stimulate progress. All companies have goals. But there is a difference between merely having a goal and becoming committed to a huge, daunting challenge—such as climbing Mount Everest. A true BHAG is clear and compelling, serves as a unifying focal point of effort, and acts as a catalyst for team spirit. It has a clear finish 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. It is tangible, energizing, highly focused. People get it right away; it takes little or no explanation. For example, NASA's 1960s moon mission didn't need a committee of wordsmiths to spend endless hours turning the goal into a verbose, impossible-to-remember mission statement. The goal itself was so easy to grasp—so compelling in its own right—that it could be said 100 different ways yet be easily understood by everyone. Most corporate statements we've seen do little to spur forward movement because they do not contain the powerful mechanism of a BHAG.

Although organizations may have many BHAGs at different levels operating at the same time, vision requires a special type of BHAG—a vision-level BHAG that applies to the entire organization and requires 10 to 30 years of effort to complete. Setting the BHAG that far into the future requires thinking beyond the current capabilities of the organization and the current environment. 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—it will have perhaps only a 50% to 70% probability of success—but the organization must believe that it can reach the goal anyway. A BHAG should require extraordinary effort and perhaps a little luck. We have helped companies create a vision-level BHAG by advising them

to think in terms of four broad categories: target BHAGs, common-enemy BHAGs, role-model BHAGs, and internal-transformation BHAGs. (See the insert “Big, Hairy, Audacious Goals Aid Long-Term Vision.”)

Vivid Description. In addition to vision-level BHAGs, an envisioned future needs what we call *vivid description* – that is, a vibrant, engaging, and specific description of what it will 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. It is a question of painting a picture with your words. Picture painting is essential for making the 10-to-30-year BHAG tangible in people’s minds.

For example, Henry Ford brought to life the goal of democratizing the automobile with this vivid description: “I will build a motor car for the great multitude.... It will be so low in price that no man making a good salary will 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 will be able to afford one, and everyone will have one. The horse will have disappeared from our highways, the automobile will be taken for granted...[and we will] give a large number of men employment at good wages.”

The components-support division of a computer-products company had a general manager who was able to describe vividly the goal of becoming one of

In the 1930s, Merck had the BHAG to transform itself from a chemical manufacturer into one of the preeminent drug-making companies in the world, with a research capability to rival any major university. In describing this envisioned future, George Merck said at the opening of Merck’s research facility in 1933, “We believe that research work carried on with patience and persistence will bring to industry and commerce new life; and we have faith that in this new laboratory, with the tools we have supplied, science will be advanced, knowledge increased, and human life win ever a greater freedom from suffering and disease.... We pledge our every aid that this enterprise shall 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 better place to live in, that those who hold aloft that torch of science and knowledge through these social and economic dark ages, shall take new courage and feel their hands supported.”

Passion, emotion, and conviction are essential parts of the vivid description. Some managers are uncomfortable expressing emotion about their dreams, but that’s what motivates others. Churchill understood that when he described the BHAG facing Great Britain in 1940. He did not just say, “Beat Hitler.” He said, “Hitler knows he will have to break us on this island or lose the war. If we can stand up to him, all 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 all we have known and cared for, will 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 will still say, ‘This was their finest hour.’”

You must translate the vision from words to pictures with a vivid description of what it will be like to achieve your goal.

the most sought-after divisions in the company: “We will be respected and admired by our peers.... Our solutions will be actively sought by the end-product divisions, who will achieve significant product ‘hits’ in the marketplace largely because of our technical contribution.... We will have pride in ourselves.... The best up-and-coming people in the company will seek to work in our division.... People will give unsolicited feedback that they love what they are doing.... [Our own] people will walk on the balls of their feet.... [They] will willingly work hard because they want to.... Both employees and customers will feel that our division has contributed to their life in a positive way.”

A Few Key Points. Don’t confuse core ideology and envisioned future. In particular, don’t confuse core purpose and BHAGs. Managers often exchange one for the other, mixing the two together or failing to articulate both as distinct items. Core purpose – not some specific goal – is the reason why the organization exists. A BHAG is a clearly articulated goal. Core purpose can never be completed, whereas the BHAG is reachable in 10 to 30 years. Think of the core purpose as the star on the horizon to be chased forever; the BHAG is the mountain to be climbed. Once you have reached its summit, you move on to other mountains.

Identifying core ideology is a discovery process, but setting the envisioned future is a creative process. We find that executives often have a great deal of difficulty coming up with an exciting BHAG. They want to analyze their way into the future. We have found, therefore, that some executives make more progress by starting first with the vivid description and backing from there into the

What's needed is such a big commitment that when people see what the goal will take, there's an almost audible gulp.

BHAG. This approach involves starting with questions such as, *We're sitting here in 20 years; what would we love to see? What should this company look like? What should it feel like to employees? What should it have achieved?* If someone writes an article for a major business magazine about this company in 20 years, what will 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 20 years, the executives mentioned such things as "on 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 seatmates...20 consecutive years of profitable growth...an entrepreneurial culture that has spawned half a dozen new divisions from within...management gurus use us as an example of excellent management and progressive thinking," and so on. From this, they were able to set the goal of becoming as well respected as Merck or as Johnson & Johnson in biotechnology.

It makes no sense to analyze whether an envisioned future is the right one. With a creation – and the task is creation of a future, not prediction – 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 envisioned future involves such essential questions as *Does it get our juices flowing? Do we find it stimulating? Does it spur forward momentum? Does it get people going?* The

envisioned future should be so exciting in its own right that it would continue to keep the organization motivated even if the leaders who set the goal disappeared. City Bank, the predecessor of Citicorp, had the BHAG "to become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been" – a goal that generated excitement through multiple generations until it was achieved. Similarly, the NASA moon mission continued to galvanize people even though President John F. Kennedy (the leader associated with setting the goal) died years before its completion.

To create an effective envisioned future requires a certain level of unreasonable confidence and commitment. Keep in mind that a BHAG is not just a goal; it is a Big, Hairy, Audacious Goal. It's not reasonable for a small regional bank to set the goal of becoming "the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been," as City Bank did in 1915. It's not a tepid claim that "we will democratize the automobile," as Henry Ford said. It was almost laughable for Philip Morris – as the sixth-place player with 9% market share in the 1950s – to take on the goal of defeating Goliath RJ Reynolds Tobacco Company and becoming number one. It was hardly modest for Sony, as a small, cash-strapped venture, to proclaim the goal of changing the poor-quality image of Japanese products around the world. (See the insert "Putting It All Together: Sony in the 1950s.") Of course, it's not only the audacity of the goal but also the level of commitment to the goal that counts. Boeing didn't just envision a future dominated by its commercial jets; it bet the company on the 707 and, later, on the 747. Nike's people didn't just talk about the idea of crushing Adidas; they went on a crusade to fulfill the dream. Indeed, the envisioned future should produce a bit of the "gulp factor": when it dawns on people what it will take to achieve the goal, there should be an almost audible gulp.

But what about failure to realize the envisioned future? In our research, we found that the visionary companies displayed a remarkable ability to achieve even their most audacious goals. Ford did democratize the automobile; Citicorp did become the most far-reaching bank in the world; Philip Morris did rise from sixth to first and beat RJ Reynolds worldwide; Boeing did become the dominant commercial aircraft company; and it looks like Wal-Mart will achieve its \$125 billion goal, even without Sam Walton. In contrast, the comparison com-

Putting It All Together: Sony in the 1950s

Core Ideology

Core Values

- Elevation of the Japanese culture and national status
- Being a pioneer – not following others; doing the impossible
- Encouraging individual ability and creativity

Purpose

To experience the sheer joy of innovation and the application of technology for the benefit and pleasure of the general public

Envisioned Future

BHAG

Become the company most known for changing the worldwide poor-quality image of Japanese products

Vivid Description

We will create products that become pervasive around the world.... We will be the first Japanese company to go into the U.S. market and distribute directly.... We will succeed with innovations that U.S. companies have failed at – such as the transistor radio.... Fifty years from now, our brand name will be as well known as any in the world...and will signify innovation and quality that rival the most innovative companies anywhere.... “Made in Japan” will mean something fine, not something shoddy.

panies in our research frequently did not achieve their BHAGs, if they set them at all. The difference does not lie in setting easier goals: the visionary companies tended to have even more audacious ambitions. The difference does not lie in charismatic, visionary leadership: the visionary companies often achieved their BHAGs without such larger-than-life leaders at the helm. Nor does the difference lie in better strategy: the visionary companies often realized their goals more by an organic process of “let’s try a lot of stuff and keep what works” than by well-laid strategic plans. Rather, their success lies in building the strength of their organization as their primary way of creating the future.

Why did Merck become the preeminent drug-maker in the world? Because Merck’s architects built the best pharmaceutical research and development organization in the world. Why did Boeing become the dominant commercial aircraft company in the world? Because of its superb engineering and marketing organization, which had the ability to make projects like the 747 a reality. When asked to name the most important decisions that have contributed to the growth and success of Hewlett-Packard, David Packard answered entirely in terms of decisions to build the strength of the organization and its people.

Finally, in thinking about the envisioned future, beware of the We’ve Arrived Syndrome – a complacent lethargy that arises once an organization has

achieved one BHAG and fails to replace it with another. NASA suffered from that syndrome after the successful moon landings. After you’ve landed on the moon, what do you do for an encore? Ford suffered from the syndrome when, after it succeeded in democratizing the automobile, it failed to set a new goal of equal significance and gave General Motors the opportunity to jump ahead in the 1930s. Apple Computer suffered from the syndrome after achieving the goal of creating a computer that nontechnicians could use. Start-up companies frequently suffer from the We’ve Arrived Syndrome after going public or after reaching a stage in which survival no longer seems in question. An envisioned future helps an organization only as long as it hasn’t yet been achieved. In our work with companies, we frequently hear executives say, “It’s just not as excit-

The basic dynamic of visionary companies is to preserve the core and stimulate progress. It is vision that provides the context.

ing around here as it used to be; we seem to have lost our momentum.” Usually, that kind of remark signals that the organization has climbed one mountain and not yet picked a new one to climb.

Many executives thrash about with mission statements and vision statements. Unfortunately,

most of those statements turn out to be a muddled stew of values, goals, purposes, philosophies, beliefs, aspirations, norms, strategies, practices, and descriptions. They are usually a boring, confusing, structurally unsound stream of words that evoke the response "True, but who cares?" Even more problematic, seldom do these statements have a direct link to the fundamental dynamic of visionary companies: preserve the core and stimulate progress. That dynamic, not vision or mission statements, is the primary engine of enduring companies. Vision simply provides the context for bringing this dynamic to life. Building a visionary company requires 1% vision and 99% alignment. When you have superb alignment, a visitor could

drop in from outer space and infer your vision from the operations and activities of the company without ever reading it on paper or meeting a single senior executive.

Creating alignment may be your most important work. But the first step will always be to recast your vision or mission into an effective context for building a visionary company. If you do it right, you shouldn't have to do it again for at least a decade.

1. David Packard, speech given to Hewlett-Packard's training group on March 8, 1960; courtesy of Hewlett-Packard Archives.

2. See Nick Lyons, *The Sony Vision* (New York: Crown Publishers, 1976). We also used a translation by our Japanese student Tsuneto Ikeda.

3. Akio Morita, *Made in Japan* (New York: E.P. Dutton, 1986), p. 147.

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