Jim Collins	*What Comes Next* [*Inc. Magazine*, October 1997—cover story]

Best-selling author Jim Collins on why products, strategy, and charismatic leadership will become things of the past

No one was more surprised than Jim Collins was when Built to Last, the management tome he coauthored with fellow Stanford professor Jerry Porras, became an out-of-orbit success. Published in 1994, the aggressively fad-free book (no just-add-water turnaround tips here) quickly found its way onto best-seller lists, then proceeded to stay there for two years (and counting). No management book could compete with it.

Collins's astonishment was total. The book, a study of great companies founded in the first half of the 20th century, "wasn't exactly sexy," he notes. It offered no quick fixes, issued none of the usual change-or-die threats, and most damning of all, was about the past--suspect subject matter in an age when what's hip is to say business is different and the old rules don't apply.

So why all the clamor? Because, Collins finally concluded, something new was going on, and he and Porras had been lucky enough to get in its way. Without trying to, they had connected with a legion of businesspeople who, in Collins's words, "are hungry to build something of enduring character on a fundamental set of values they can be proud of." The new crowd, far from being the shortsighted, unreflective bunch they're usually taken for, are "hungry to think," Collins continues. "They're hungry for resonance. Maybe because of the change all around them, they want to build on bedrock that won't move. They want to leave a legacy." And when they heard Collins's work had something that could help them do it, they overran every airport bookshop in the nation.

More significant than that stampede, though, are the questions raised by the hunger that prompted it: What will these new desires wreak? How will they shape the companies about to be built--the companies being conceived of now? How will businesses look different in the years ahead? In short, what comes next?

Collins, of course, has a theory.

Like all his theories, it's born of an analytical method that can be summarized like this: He observes contemporary business behavior. He observes historical business behavior. And then he explores how they illuminate each other. In this instance, his observation of today's business landscape reveals a swelling group of company builders seeking a different kind of business life--one richer in meaning, more grounded, more sustainable. Does the past offer examples, even if rare, that show what kind of organization such impulses breed, and what kind of CEO? What's more, if those impulses are growing more common, won't companies of that kind become more common, too?

Yes, says Collins, who then ventures a prediction. "I think we're going to see three significant changes in business because of what these people will create. Number one, we're going to see companies increasingly assume that what they stand for in an enduring sense is more important than what they sell. Second, I think we'll see a shift away from focusing on strategy to building mechanisms. And third, we're going to see people building companies that do not depend on a charismatic leader."

None of those characteristics, Collins points out, is new. Some of the "enduring great companies" (a pet phrase of Collins's) of the 20th century exhibit them all. But in the past those companies were atypical--and those characteristics, even though not novel, are strikingly at odds with the dominant management mantras of our times. Aren't the best companies supposed to be built on product excellence, inspirational leadership, and killer strategies? Not in the 21st century they won't be, says Collins.

When we visited Collins for the conversations that yielded this story, we discovered something else about the characteristics he's identified. They're not just organizational. They're personal. Collins practices them himself.

Collins lives in Boulder, Colo., and works out of a small office suite in a restored brick schoolhouse. He found his way there two years ago when, confronted with unexpected good fortune of bestsellerdom, he did what most of us would do in the circumstances: he refashioned his life. He left his Stanford teaching job, moved to the mountains, and invented the next phase of his career. He also did what most of us wouldn't do: he walked away from the product that had made his name. There were no Built to Last sequels rushed to market. No newsletters. No attempts to turn his book into a brand.

Instead, he established his "management laboratory" and started researching new questions, looking for fresh ways "to contribute through learning and teaching"--the core purpose he has set for himself. (What you stand for is more important than what you sell.) He rejected gurudom and its role as the fountain of answers. (Do not depend on a charismatic leader.) And instead of hunting for the next Built to Last, he constructed habits and systems that are likely to ensure that he trips over it. (Shift from focusing on strategy to building mechanisms.)

Describing all this in person, Collins radiates a peculiar blend of intensity and joy. He is an athletic, springy man, a rock climber, 39 years old. The impression of intensity is exaggerated by the way his eyes always seem more wide-open than most, as if he were living in a world with less light than he'd hoped for.

Despite all the occasionally manic energy, though, Collins seems remarkably at ease in his skin. You get the sense that he feels lucky. And in exploring his ideas about what companies will look like, you begin to see why. It's because he's figured something out: the tools that can change your business may be even more potent for changing your life. Better still, they can bring your business and your life into line--which is how things seem to be shaping up for Collins these days. It looks pretty appealing.

Over the course of an afternoon in his lab, we asked Collins to elaborate on the three main characteristics he expects to see in the enduring great companies to come. The discussion often had the feel of first-draft thought, that point in the formation of ideas when you're trying to explain your thinking to yourself as much as to anyone else. Later--maybe when Collins has worked them through enough to write them down--the ideas will reach a state of high polish. But for now they're still raw, a little awkward, and provocatively, thrillingly new.

Below is some of what Collins--calling his explanations a "work in progress" and summoning personal examples throughout--said. --Michael Hopkins

IT'S NOT WHAT YOU MAKE, IT'S WHAT YOU STAND FOR

Concentrating on products--or services, if that's what you sell--is a trap. It's not that what a company makes is irrelevant; only that we'll see more and more companies framing their identity in terms of their core purpose rather than in terms of their products or services.

They'll need to. Business cycles of all kinds are getting shorter--some products become obsolete almost as quickly as they're created. It's more important than ever to define yourself in terms of what you stand for rather than what you make, because what you make is going to become outmoded faster than it has at any time in the past.

Then what do you hang on to? You hang on to the idea of who you are as a company, and you focus not on what you do but on what you could do. By being really clear about what you stand for and why you exist, you can see what you could do with a much more open mind. You enhance your ability to adapt to change.

Compare Zenith and Motorola, two companies that long ago were known for making TVs. Zenith stayed there; Motorola made jump after jump--to microprocessors, integrated circuits, all kinds of things--and became one of the most highly regarded companies in the country. What was the difference? Zenith thought mainly in terms of what it was making. Motorola thought mainly in terms of what it stood for. It defined its core purpose as "applying technology to the benefit of the public," not "making television sets," not even "making world-class, state-of-the-art, market-leading television sets." Motorola, by thinking about what it stood for, could give up what it made. Zenith, which never thought about it that way, couldn't.

What to do, and how your purpose helps you choose it

Aims like Motorola's can seem so broad that they look meaningless, but they provide a context that drives very specific choices about what to make or what service to provide, and whom to sell it to. Think of Motorola again. Its large-minded conceptions of purpose took it in directions its competitors couldn't even imagine--and made it utterly immune to the market forces affecting TV manufacturers.

So largeness of purpose is crucial, but even apparently boundaryless notions of purpose aren't as all-inclusive as you might think. A story from my days at Hewlett-Packard shows how a broad purpose can very powerfully guide a company toward deciding what not to do.

As a junior product manager, I was part of a team charged with determining the nature of our next computer. I argued that we should do an IBM-compatible product because, given the standards in the market, if we weren't IBM compatible, we would fail. And about that I was right. What I was wrong about was that we should create the product that the market wanted, which was an inexpensive, reasonably fast IBM-compatible computer. My engineering counterparts from the lab said, "There's no opportunity for a technical contribution in a straight IBM compatible."

I said, "But that's what the market wants." And one of my friends from the lab said, "But that's not who we are. It doesn't matter if that's what the market wants. Hewlett-Packard is not about to issue a major line of computers that does not represent a technical advance, because it's not what we're about." He was right, and today HP is doing very well in a high-end, very profitable computer niche built on its high technical contribution. The company's core purpose dictated a very real-world choice.

In addition to the "what we stand for" test, there are two other key tests that help guide a company's choices about what products or services it should offer. There's a whole separate question a company must answer: What are we good at? Does the option we're considering match our capabilities? And finally, there's a third test: Will people profitably pay us for this?

Imagine a model consisting of three overlapping circles to show how the three tests inform one another. What you're after is the choice that falls inside the intersection of those three circles--the option that passes all the tests. You can see how when seemingly unlimited possibilities are balanced by other concerns, practical choices emerge. Most companies, though, never define what they stand for; they don't have a purpose. Few companies ever even build an accurate picture of what they're good at. What they're left with is a stool supported by only one leg: they're driven only by what people will pay for.

How to describe what you stand for--so it actually does some good

Most organizations haven't done a particularly good job of articulating what they stand for--their "mission statements" notwithstanding. Why is that? First, some companies don't stand for anything real. Second, many companies that do stand for something don't have a good grasp of what it is.

There are five important characteristics of a good expression of a company's core purpose:

One, it absolutely has to be inspiring to those inside the company.
Two, it has to be something that could be as valid 100 years from now as it is today.
Three, it should help you think expansively about what you could do but aren't doing.
Four, it should help you decide what not to do.
Last, your expression of what you stand for has to be truly authentic to your company. Companies that fail on this count are often the ones that really don't stand for anything and never will.

FORGET STRATEGY. BUILD MECHANISMS INSTEAD

To put your core purpose to work, you need mechanisms--the practices that bring what you stand for to life and stimulate change. Mechanisms force things to happen that reinforce your company's core purpose, converting that purpose into action.

Mechanisms aren't strategies; describing the difference helps explain them. In my own personal company of one, for example, my core purpose is "to contribute through learning and teaching." With that in mind, my strategy could be to maximize my contribution at every company I see when I'm consulting. But that's only an intention. Most strategies are intentions. If I have a mechanism, I don't need the intention, because the mechanism will make things happen even when I'm not focused on them.

I've tried to create mechanisms that promote my purpose. For instance, I don't allow myself to spend more than 25% of my time on anything resembling consulting, a limit that ensures that I have time for research, for learning. I've prohibited myself from hiring a permanent full-time employee, which ensures that I won't spend too much time being a manager. And then there's a mechanism I call "the four-day rule." It stipulates that no matter how big or lucrative a client company is, I will spend no more than four days with it in a given year.

Now, that last mechanism drives all sorts of things. It ensures that I can't get drawn into managing or helping to implement ideas or decisions. You can't change AT&T in four days; all you can hope to do is teach, so the mechanism forces me to be in teaching mode. Furthermore, it almost guarantees that I'll make a contribution, because it turns me into a scarce resource. When some multibillion-dollar company has already used three days and the CEO says, "Jim, we'd like you to come give a talk," I can say, "Well, you have only one day left. Are you sure that's how you want to spend it?" It forces a dialogue about how I can best contribute and what the company needs most.

Another mechanism requires the chief executives I work with to spend part of their time coming to see me in Colorado. Think of the effect that has. Instead of trying to get their attention by sending an immorally large bill--which wouldn't incur any psychological pain, because they just have to send a check, and there's always more money--I'm now asking them to give up the one thing they can't get more of: their time. And that commitment means I don't have to worry about developing a strategy for getting them to hear what I'll say. The mechanism virtually guarantees that they'll listen, just because of what they've sacrificed to get there. It maximizes the likelihood that I'll make a significant contribution even though it doesn't prescribe what the meeting will be about or what the result will be.

How to build a mechanism and spot a good one when you see it

There are two ways in which powerful mechanisms come about. One is organic; I'd call it the try-a-lot-of-stuff-and-keep-what-works school of mechanisms. That's how 3M's famous 15% rule came about. About 40 years ago there was a meeting headed by William McKnight, who was the real architect of 3M, and a guy raised his hand and said: "You know, you're always encouraging us to use our creativity and initiative, but I'm pretty busy just doing the stuff we're already working on. Would it be OK with you if I used the lab during my breaks to play with things I just want to explore?" And McKnight said: "Sure, great idea. But don't take your break time. Take 15% of your day anytime you like and work on whatever you want." That's not pursuing a strategy, that's building a mechanism that will lead toward innovation.

The other way that mechanisms come about is that an executive simply imposes them.

When Granite Rock Co. established its "short pay" policy, it wasn't a consensus decision. It was CEO Bruce Woolpert's saying, "We've got to put something dramatic in place that will force us to pay attention when we're not meeting the standards that we have for ourselves and that a customer should expect from us." So, now, printed at the bottom of every Granite Rock invoice is the instruction: If you're not satisfied with something, don't pay us for it. Simply scratch out the related line item... and send your check for the remaining balance.

Now, it's one thing to adopt a strategy calling for great customer service. It's another to devise a mechanism that invites unhappy customers to pay less than the amount on the invoice. That will get your attention. It's concrete. It's measurable. And pretty soon the whole company is trying to figure out how to perform so it doesn't happen.

Mechanisms like that change the psychology of a company. And they're like electroshock therapy--they need someone to administer them.

The invention of a mechanism

Often you build mechanisms in response to a specific problem. Here's one I invented to solve a problem in my classroom.

One of my goals for my classroom is to make it an environment where people will be actively involved in their own learning. I genuinely believe that each student can contribute as much to the learning process as the teacher does, if not more. With 66 students in my business-school class, plus me, that's 67 teachers in the room. Anytime that a student has something really important to contribute as we explore a case--a key challenge or a question--I want to hear it. I tell my class that all the time.

Easier said than done. One day I was running with my wife, who was then a law student, and she told me how demoralized she was that her professor hadn't called on her that day. She'd had the insight for the case being discussed--one that would have benefited everybody in the class. It was the best insight she'd had all quarter. But though she had her hand up the whole time, the professor just didn't get around to her that day.

And I thought to myself, "With 66 students, I'll bet that that happens in my class every day--and I don't even know it." How could I ensure that it wouldn't happen again?

Well, the next day I walked into my classroom with a stack of 8 1/2-by-11-inch bright red sheets of paper. I gave one to each student. And I said: "This is your red flag. You get to raise it only one time in a quarter, but when you do--no matter what's going on--the world will stop for you. So when you have your best contribution to make, your key insight or challenge or story, that's your red-flag point. You're the only screen. Raise the flag, and the floor is yours." Of course, that put students in the position of asking themselves, "Is this really my red-flag comment, or should I just raise my hand?" And as a teacher, you knew that if somebody raised a red flag, well, what that person was going to say would be special.

One day we were doing a case study on the Body Shop--asking the question, Is the Body Shop doing the right things to be an enduring great company? Founder Anita Roddick had come to speak with the class. Now, Anita is used to being in charge and in control. But I said, "Anita, you have to understand that when you go into my classroom, the students' learning trumps everything, including you and me. And I've got some mechanisms built in that ensure that." I told her about the red flags.

I did the case discussion, and then she got up and began talking. One of my students from India raised his red flag. This was an absolutely brilliant student--very soft-spoken and thoughtful--who had hardly said anything all quarter. First, Anita wanted to keep talking. I said, "No. He raised his flag. He gets the floor." In a very respectful but incisive way, he began to push her--to question her, speaking as an Indian, about what the Body Shop was doing in the third world.

In the next 10 minutes there was the most amazing interchange, making a gigantic contribution to the class, which changed the entire quarter. Without the mechanism of the red flag, it never would have happened. He would have raised his hand, and not knowing how important what he had to say was, I would have let Anita continue. Instead, the red flag forced the challenge to be entertained.

So, the mechanism rewired the class. And it got built only because I knew what I wanted the class to stand for, had a problem, and invented the mechanism as a solution.

What most executives do instead is to try to solve problems with an initiative, an intention, a memo. The typical CEO might have come into class and said: "It's come to my attention that people may not be getting their comments in, even though they could really help the class. I really want to emphasize again that if you have something important to say, make sure you get heard."

The step is to go from there to saying: "No, I need a mechanism. What mechanism can I build?" And then to build it. That's the process.

THE DEATH OF THE CHARISMATIC LEADER (AND THE BIRTH OF AN ARCHITECT)

Almost by definition, an enduring great company has to be built not to depend on an individual leader, because individuals die or retire or move on. What's more, when a company's identity can't be separated from the identity of its leader, it can't be known for what it stands for. Which means it sacrifices the potency of being guided by its core purpose.

So the charismatic-leader model has to die. What do you replace it with? The task that the CEO is uniquely positioned to do: designing the mechanisms that reinforce and give life to the company's core purpose and stimulate the company to change.

Building mechanisms is one of the CEO's most powerful but least understood and most rarely employed tools. Along with figuring out what the company stands for and pushing it to understand what it's really good at, building mechanisms is the CEO's role--the leader as architect.

The old role is still seductive, though. Past models have glorified the individual leader, especially when he or she was an entrepreneur. And charismatic-style CEOs understandably find it hard to let go of the buzz that comes from having an intense, direct personal influence. But a charismatic leader is not an asset; it's a liability companies have to recover from. A company's long-term health requires a leader who can infuse the company with its own sense of purpose instead of his or hers, and who can translate that purpose into action through mechanisms, not force of personality.

However hard the transition to architect might be, there are three issues, affecting every CEO, that encourage it--and eventually may even force it. One: time for creativity. Two: time span. And three: scale.

First, let's discuss creativity. As personally energizing as it is to have an effect on an employee and to touch his or her life, it's so energy absorbing that you're never left with enough time or spirit for real creative reflection or real creative work. Which is what mechanism building should be. The absence of that time is one great source of burnout.

The second concern is time span. Clearly, building a mechanism will have a much longer-lasting effect than leading by virtue of your presence. A mechanism doesn't depend upon you. If a truck hits you tomorrow, the mechanism will still be there.

The last concern, scale, is the most crucial. You can't build something really big just on charisma alone. At some point the scale is too great; you can't reach that many people. If you want something to really grow over time, you've got to build mechanisms that can touch everybody every day. What you get in the end is more reach, more power, the ability to affect more people. It's a leverage game.

$200 MILLION AND FIVE YEARS TO LIVE

This approach to company building--thinking about what you stand for, using mechanisms, being an architect--is different from some of the management trends of recent years because unlike, say, quality programs or reengineering, it allows you to be an incremental revolutionary. You don't have to do it all at once. Small steps--such as Granite Rock's altered invoice--drive revolutionary long-term changes. Ironically, the best illustration of that is a mechanism that's not organizational but personal. This mechanism is the reason I ended up doing what I'm doing now.

When I was 25 years old, I had what I think of as an excruciatingly early midlife crisis. I'd graduated from Stanford Business School, I was working at Hewlett-Packard, and I was miserable. The company paid me well. I was good at my job. But it just didn't fit with what I stood for. Truth is, I didn't know what I stood for.

And I didn't know what I wanted to do. I didn't know where I wanted to end up. So, instead of trying to determine where I wanted to end up, I sat down and asked myself, "What kind of life do I want to have?" And I thought, "You know, a good life would be one where if I woke up in the morning and suddenly had $20 million in the bank and only 10 years to live, I still wouldn't change how I spent my time." That's the test. (Now it's $200 million and 5 years. You know, inflation and all...)

I call it the "Gordon, the Guided Missile" mechanism. I got the idea from a John Cleese lecture. Gordon doesn't know what he's going to hit. He just gets fired into the air, the way all of us get shot out into life. We don't know who the hell we are or where we're going or what we're going to hit. Nobody gives you a life target; we're as unseeing as Gordon. We just rocket along.

And I thought, "I'm going to be Gordon, the Guided Missile." The way Gordon works, you understand, is that even though he never knows where the target is, he's always responding to some kind of feedback. He gets feedback and shifts--a little high, a little low, a little over. He gets more feedback and shifts again. And eventually he hits the target, which is the only moment he knows what the target is.

"Well," I thought, "I don't know what my target is, either, but if I can build a Gordon, the Guided Missile, mechanism, I'll hit the target, whatever it is." And the $20 million/10 years mechanism is what I came up with. It requires me to keep two lists: one for things that I would continue to do if I woke up tomorrow and discovered I had $20 million and 10 years to live, and another for things that under those circumstances I'd stop doing.

I review the lists over time, and I realize activities on the first list are really neat and I'd like to do more of them. And Gordon, the Guided Missile, shifts to the left. And other things keep showing up on the wrong list, and I realize it's time to quit them. Gordon shifts the other way.

So there's positive feedback and negative feedback; Gordon is getting feedback the whole time. And then whenever you're down, you've hit the target, whatever the target happens to be. Initially, in my own life, the mechanism caused some big sweeps to take place--Gordon was flying east, and I needed to go north. It prompted big changes, like quitting HP. Like deciding I was going to go back and join the academic world at Stanford. I wasn't turning a full 180 degrees, but it was a 90-degree swing. Since then the mechanism has been more iterative, the adjustments closer to the current course.

Either way, it's the perfect example of what I mean by using a mechanism instead of a strategy. I didn't know where I was going to end up. I didn't have a strategy. If somebody were to ask me now where I'm going to be in 10 years, I'd say, "I don't know, but I can tell you this. In 10 years I'll be able to wake up on any morning and say that if I suddenly had $200 million and 5 years to live, I wouldn't change the way I lead my life."

It works.

Jim Collins operates a management laboratory in Boulder, Colo.

THE BIG IDEA

A dozen companies and the goals that express what they stand for

BOEING: To push the leading edge of aviation, taking on huge challenges and doing what others cannot do

WALT DISNEY: To make people happy

HEWLETT-PACKARD: To make technical contributions

WAL-MART: To give ordinary folk the chance to buy the same things as rich people

SONY: To experience the sheer joy of advancing technology and applying it for the public's benefit

MERCK: To preserve and improve human life

3M: To solve unsolved problems innovatively

MARY KAY: To give unlimited opportunity to women

TEACHING CO.: To ignite in all people the passion for learning

MARRIOTT: To make people away from home feel that they're among friends and really wanted

PATAGONIA: To use business to inspire and implement solutions to the environmental crisis

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

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