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Will You Outlive Your Organization?

Challenging Lessons & Insights from Companies that have Endured Over Time

Russell consulting, inc.

RCI White Paper

Will You Outlive Your Organization?

The statistics can be depressing: the U.S. Small Business Administration reports that 40% of all small businesses fail within the first five years of business. And every five years, half of all small firms with employees simply disappear or reorganize. Survival, it seems, is a rare commodity in the world of small businesses.

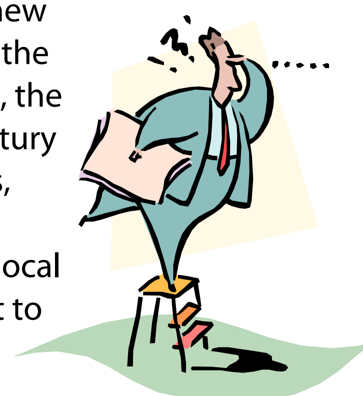
Being a big business, of course, brings no guarantees either. Recent research suggests that the average lifespan of the typical corporation is less than 50 years. Such statistics suggest that most of us will actually outlive the companies we work for — even those we build from the ground up. This low business survival rate leads to heavy financial and emotional losses for owners, managers, investors, workers, and entire communities.

What can owners and investors do to ensure that their companies not only survive, but grow and prosper? In the volatile marketplace of the late 20th century, there are few simple answers. And little assurance comes from the management fads sweeping through corporate and small business America. Despite the real benefits that they can bring organizations, initiatives such as quality improvement, empowerment, reengineering, and team-centered decision making — which cost businesses billions of dollars annually — may actually have little effect by themselves on an organization's long term success. A new book by a retired executive of Royal Dutch/Shell, however, suggests that there could be a better way.

Arie de Geus, author of ***The Living Company*** (published by the Harvard Business School Press), presents research findings from a study of 27 companies ranging in age from 100 to 700 years. De Geus discovered through this fascinating study, that long-lived companies shared four common personality characteristics — characteristics that set them apart from others and that seemed to explain their extraordinary longevity. Those four special traits were:

A sense of community — Companies that created an environment where people played an important part in the company's success tended to be more able to attract and keep good people. This sense of belonging emerged from a partnership forged with employees along with the knowledge that the company's wealth benefited the entire organization, not just the inner circle of leaders.

Sensitive to a changing world — Long-lived companies were tuned in to their world — not just to their markets. They sensed the changes around them, and responded in ways that enabled them to thrive. The 700 year old Swedish firm Stora transformed itself to sustain itself — moving into new markets and abandoning old ones. Stora survived in spite of the changes brought about by the Middle Ages, the Reformation, the Industrial Revolution, and two world wars. From its 13th Century beginnings in copper mining, Stora shifted to forest products, iron smelting, hydropower, and most recently paper, wood products, and chemicals in response to changing needs and local and global economic pressures. Its ability to sense and adapt to the environment enabled it to thrive.



Tolerance of diverse ideas — Leaders of successful companies in de Geus' study allowed employees to stretch the company outside of its comfort zone. These leaders recognized that their future business might be very unrelated to their current business and that they had to be receptive to different ways of looking at the world and their company's role. The implications for today's small business owner is that employees may hold the future direction of the company in their minds.

And finally, ***financially conservative*** — De Geus found that companies that survived for a century or more didn't rely upon the approval of financiers to decide their future. They maintained cash reserves sufficient enough to give them financial independence. When owners sensed a new direction to the market or an emerging need, they had the resources to respond. Their financial conservatism gave them control over their own destiny.

In our own consulting work with diverse organizations — both young and old — we've found these traits to be *defining* qualities that enable an organization to be not only long-lasting, but great places to work. We would add other characteristics to de Geus' list — qualities that build strong, resilient, and attractive companies and which help to sustain a great organization: *a shared vision of the future* that provides a higher purpose to everyday work; *a passion for learning* that challenges people to seek out innovation and change; *the rich exchange of information throughout the organization* that enables people to develop a deep awareness of the company's direction, goals, strategies, challenges, and discoveries; and *a reward system that encourages innovation and* *quality* so that people clearly understand that innovation and quality are highly valued by the organization.

Building a great and long-lasting company, one that achieves exceptional performance for its customers and stakeholders, requires strong leadership that is sensitive to both the world and to its employees. There's no time like the present to begin your company's 700-year journey.

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