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Reflections on corporate longevity

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McKinsey's former managing director explores the phenomenon of long-lived companies and the values and practices they share.

Does corporate longevity matter? And, if so, why do some companies manage to create value and endure over decades—even centuries—whereas other companies slowly die or fizzle out after a brief burst of productive creativity?

The editors of *McKinsey Quarterly*—which has been publishing articles for 50 years, while the firm itself has been active for 88 years—asked me for some personal reflections on these questions. The perspectives below are based on my own beliefs and observations and on discussions with business leaders, including Lou Gerstner, Ratan Tata, and Marcus Wallenberg. (For more, see "Lou Gerstner on corporate reinvention and values" and "The power of enduring companies," on mckinsey.com.)

Does longevity matter?

Free-market economists tend to dismiss the value of longevity. Joseph Schumpeter's term "creative destruction" has become shorthand for a messy but effective way of delivering valuable innovations and progress. No rational person in a free society, these economists say, would want to frustrate innovations that render existing products and companies obsolete but bring prosperity and benefits to the broader population. They add that no rational person in a free society would want to prevent new managers or owners from using existing assets more productively.

Up to a point, I support that argument. But it needs to be examined and challenged constantly if the underlying idea is not to be abused. Not all destruction is creative, and not all creativity is destructive. The demise of a company is not damaging only for its stakeholders. Sometimes, it may also be an inefficient way of innovating in the economy or an industry, because it breaks up established and tangible assets, such as R&D know-how and strong consumer and supplier relationships. A company that learns to adapt and change to meet market demands avoids not just the trauma of decline or an unwanted change of ownership but also very real transaction and disruption costs.

Corporate endurance should not be an end in itself. That said, in a very real sense, survival is the ultimate performance measure.

Time frames and planning cycles

Longevity, in a business context, is a relative concept. Some industries (such as professional services, private banking, insurance, and luxury watches) more naturally incline to long time frames, particularly when customer trust is of high importance. In other industries (such as technology or fashion) the pace of change tends to be much faster and barriers to entry structurally much lower. A tech firm that survives for 15 years has, in a business sense, lasted as long as a consumer-product company that survives for 30. Longevity should be measured in innovation cycles, not years.

In the 1980s and 1990s, strategic-planning cycles and the concept of “strategic pacing” were much in vogue. I think it’s a shame that companies no longer focus on them to the same extent. Companies get into trouble—or the financial markets get unduly agitated or frustrated—when there is a mismatch between natural industry cycles and investor, customer, or even employee horizons. A primary task of strategic management is to define the relevant planning cycles and to think about how to manage from one to the next.

This thought process is quite different from formulaic strategic-planning exercises, which have correctly been called into question by many practitioners, as well as my colleagues in McKinsey's Strategy Practice.[1] Rather, for executives truly interested in longevity, this sort of strategic management involves regularly undertaking the difficult exercise of self-critically examining the fit between their enduring mission, industry and business cycles, and evolving strategic priorities.

What does it take?

Why is it that most companies disappear and so few endure over time? In considering this question, I exclude from its scope state-owned and family businesses (whose survival can be an end in itself rather than an outcome of sustained success). I also distinguish between corporate endurance and corporate ownership. Organizations can continue to thrive under different owners, and many companies are bought and sold precisely because they lack the scale to leverage or exploit their success. Indeed, evidence from the oft-maligned private-equity industry suggests that a change of ownership can strengthen a company's performance.

The causes of business demise—of a failure to endure—are well documented at a general level. They include failure to address changes in market demand or competition effectively; human failings such as hubris, exhaustion, or loss of ambition; loss of operational competitiveness; and above all an inability to deal with new, often disruptive, technological innovations. And sometimes, of course, external factors outside a company's control, such as natural disasters, intervene.

Perhaps less commented upon is the challenge presented by legacy assets and legacy mind-sets. A failure to adapt to seismic change (whether customer or technology driven) is, I have found, rarely caused by intellectual oversights or an inability to grasp what is happening. More often, the culprit is an inability to escape from a

[1] See Chris Bradley, Lowell Bryan, and Sven Smit, "Managing the strategy journey," *McKinsey Quarterly*, July 2012, mckinsey.com.

successful past and to accept the huge financial and human costs of responding effectively. Kodak, for example, actually invented digital photography but proved unable to embrace the new technology until it was too late. In this sense, and echoing Marcus Wallenberg's sentiments, creative destruction as a managerial concept can be most effective when applied *within* an organization. (For Marcus Wallenberg's commentary on this idea, see "The power of enduring companies," on mckinsey.com.)

In my observation, organizations that successfully adapt over multiple product and innovation cycles demonstrate a number of characteristics, in addition to the foundational requirements of sustained ambition and basic competitiveness. These companies:

- relentlessly focus on their customers, and not just on their performance with customers but also on understanding what their best and most innovative customers are doing

- engage their key suppliers to solve problems and identify opportunities, so that these activities also become key sources of insight

- avoid introversion and actively seek to understand broader trends outside their own organizations and industries

- challenge legacy thinking and legacy mind-sets, encouraging—and tolerating the cost of—internal competition and cannibalization

- avoid hubris, by creating a culture of dissatisfaction with current performance, however good. Andy Grove was right—paranoia is helpful

- adopt a predominantly "grow your own" talent philosophy to create a robust and loyal culture but mix it selectively and judiciously with external hires. In times of fundamental and disruptive change, enduring companies must be willing to change their management

- do not tolerate extended tenures in top-management roles

- focus relentlessly on values and constantly demonstrate why they matter—the values of a company, to be meaningful, must be reflected in the key managerial processes, such as performance evaluation and appointments. A company's values are judged by actions and behavior, not words and mission statements

- meaningfully and purposefully engage younger generations in formulating policy and organizational development, both to stimulate innovation and to prevent generational barriers. Conversely, new tech companies in Silicon Valley might think more about how to engage older managerial generations!

- encourage their boards to play an active—but supportive—role in challenging priorities and the status quo, particularly in times of success

Each of these themes and characteristics involves risks and conflicts. As Lou Gerstner says, "there's a ditch on both sides of the road." (See "Lou Gerstner on corporate reinvention and values" on mckinsey.com.) But successful navigation will lead to the enduringly strong performance that underpins corporate longevity.

Since it was the *Quarterly*'s longevity that inspired me to pen these reflections, I want to close this essay with happy 50th anniversary wishes. I for one, wherever I am, will be mightily distressed if *McKinsey Quarterly* is not celebrating its 100th anniversary in 50 years' time.

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