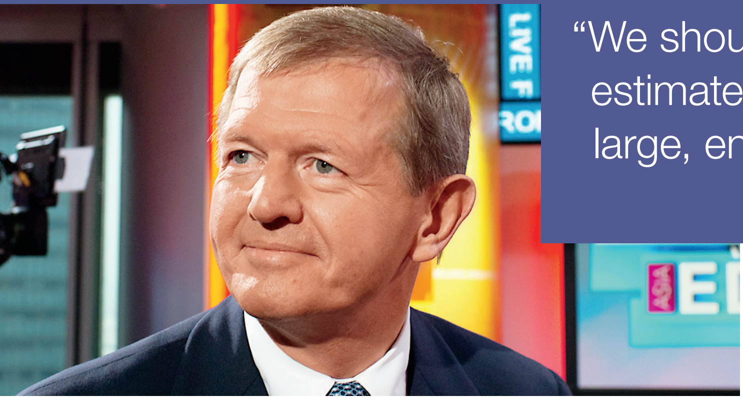
SEPTEMBER 2014

McKinsey Quarterly

The power of enduring companies

In separate commentaries, former Tata Sons chairman Ratan Tata and SEB chairman Marcus Wallenberg both argue that creative destruction can be taken too far.

Marcus Wallenberg



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"We should not under-estimate the significance of large, enduring firms"

Joseph Schumpeter focused his attention largely on new businesses and their role in eating the breakfast of established companies. But in my view, "intrapreneurs"—risk takers on the inside—are just as important as entrepreneurs in promoting new ideas and new technology.

One Swedish company that supports this point is Atlas Copco, an engineering business that has been in our family's portfolio since 1873 and is still one of the leading global players in pneumatic machinery and mining equipment. I remember my grandfather, when he was chairman, citing it as an example of a business that had been able to reinvent itself over and over again. In the early days, for example, Atlas sold materials for railroad construction, but that activity was hit hard by the recession of the 1870s. Fortunately, other innovations came through, notably in pneumatics, while the company later was nimble enough to acquire patents from Rudolf Diesel to make diesel engines.

Much depends on the attitude of the owners, board, and top management. In my opinion, it's their strong duty to foster a culture of constant innovation that drives its own creative destruction on the inside. A related issue is a willingness, when things look bad, to find ways of breathing new life into and rebuilding even very old companies. It's not easy, but in my experience it's possible, with the right determination, to take the long view, persevere, and succeed in what seems to others a hopeless situation. It's not always necessary to break up companies or introduce innovations from the outside to stay ahead of the game. Established firms have a huge natural advantage in the marketplace because of their strong customer and supplier bases, their long-term shareholder structure, and their deep reservoir of capable people.

We have stuck with many businesses where we were confident that doing so would create value in the long run. The capital markets need investors who recognize that the innovation cycle is often measured in years and that you can't create successful product portfolios with a short-term view. In our part of the world, the presence of dominant long-term owners on the share registers—investors who feel a responsibility toward companies in difficulty—is an advantage. When those shareholders take the lead in a restructuring, other institutions tend to follow.

Owners and boards who are in it for the long term must choose their leaders according to the challenge at hand; there are appropriate skills for a restructuring, but different ones will be needed when expansion is called for. It's vital for a chairman to be closely in touch with the CEO—on boards where I am chairman, I speak to the CEO a couple of times a week. I also think boards ought to stay informed on operations, immersing themselves in specific investment decisions rather than just talking about long-term strategy. Nordic boards have been quite successful in doing that.

All in all, we should not underestimate the significance of large, enduring firms. From society's perspective, think of what I call "the rings on the water": the indirect business generated by a large corporation like Ericsson through small suppliers, service contracts, technology spin-offs, and the like. Sometimes we are too philosophical about losing large businesses and forget the economic impact on these networks.

Marcus Wallenberg is chairman of SEB (Skandinaviska Enskilda Banken), the bank founded by his great-great-grandfather in 1856. He also serves as the chairman of Saab and Electrolux and sits on the boards of directors for Investor AB and AstraZeneca, among others.

"The challenge for leaders is how to keep injecting urgency"

Ratan Tata

I believe it's really important to have companies survive over the longer term. I hate to see major corporations disappearing from the scene because someone has cashed out, because the managers have been unable to escape their comfort zones, or because boards have not been sufficiently nimble to change with the times. When these things happen, decades of effort and innovation go to waste. It's bad when businesses don't fight it out, whether the enemy is a competitor's new product, an industry-transforming innovation (such as transistors), or the impact of something clearly outside a company's control (like climate change).

Disruptive events often provide the spark to change course or enter a new field, as opposed to allowing competitors to nibble at your feet. I was lucky to become chairman of the Tata group when previously protected Indian markets were opening up to foreign companies. The basis of competition had changed, and we had an opportunity to go overseas. Some people tried to block those reforms at the time. But their impact now is visible everywhere, particularly in the automobile sector—all global car manufacturers are present in the Indian market. Open markets have encouraged local companies to adopt new technologies, to become more creative, to lower costs, and to improve offerings to the consumer.

One of the big dangers for any business is complacency; the challenge for leaders is how to keep injecting urgency. I think much depends on how good a CEO is at motivating his or her team and generating the sort of excitement that leads people to do things in different ways. That doesn't mean taking cavalier risks. People in the Tata group's companies have been remarkably receptive to simple slogans such as "Question the unquestioned" and "Lead, never follow." Managerial rotation is critical: we used to have managers who did not even rotate away from a single function, who started in manufacturing and finished in manufacturing or started in R&D and retired in R&D. Unilever is good at avoiding that, and we have learned from it.

Besides the ability to innovate, I believe an attachment to good values drives corporate longevity. It's something we have had throughout Tata's history and on which we never compromise. Values are in our DNA, and they have carried us into new markets, helped us redistribute our assets, and, ultimately, made us a successful global company.

One hundred years from now, of course, I expect Tata to be much bigger and more global than it is now. More important, I hope the group comes to be regarded as India's best—best in the way we operate, best in the products we deliver, and best in our value system and ethics.

Ratan Tata served as chairman of Tata Sons, the holding company of the Tata group, from 1991 to 2012. He is a member of the board of directors for Alcoa and of the Indian Prime Minister's Council on Trade and Industry, among other positions. Tata began operating as a trading firm in 1868.

These commentaries were adapted from interviews conducted by Ian Davis, former managing director of McKinsey, and McKinsey Publishing's Tim Dickson.