

The Living Company

The Living Company:

Habits for survival in a turbulent business environment

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Lifespan of a Company

- Average life expectancy of Fortune 500 Company is 40-50 years.
- 1/3 of Fortune 500 companies in 1970 had vanished by 1983. (13 years!)
- Recent study 1996 Stratix consulting group - Amsterdam - average life expectancy of all firms, regardless of size, is 12.5 years (Japan and Europe).
- “Companies die because their managers focus on the economic activity of producing goods and services and forget that their organisations' true nature is that of a community of humans” (p3).

Features of Long Lived Companies

Shell study of companies older than Shell (≈ 100 years) 27 in detail, of 40.

Why did they survive?

1. Sensitive to their environment (in harmony with the world around them - tuned to what was going on).
2. Cohesive, with a strong sense of identity. (People felt part of them - community - managers chosen from within - "stewards").
3. Tolerant (of activities on the margin - experiments, eccentricities... - did not exert overly centralised control).
4. Conservative in financing (frugal, money in hand - could pursue options their competitors could not)

Longevity

Longevity was not linked to...

- Return on investment
- Material assets

What is the purpose of the corporation?

From Capitalism to Knowledge Society

Traditional Economic View: Sources of wealth are land, capital, labour

In age of land → wealthy if had land

In age of capital → wealthy if amassed capital

In age of knowledge → labour is valued
capital is no longer scarce

Knowledge is the scarce production factor → value of learning

Memory of the Future

How do companies anticipate the need for change?

Why doesn't a company see what is happening?

- Managers are stupid
- We can only see when a crisis opens our eyes
- We can only see what we have already experienced
- We cannot see what is emotionally difficult to see
- We can only see what is relevant to our view of the future

Tools for Foresight

It is 1920. You have the ability to predict the future. You visit the mayor of Rotterdam and tell what is going to happen in the next 25 years: The rise of the Weimar republic, the 1929 stock exchange crash, the rise of Nazism...

The mayor asks, “What should I do?”

Prediction and Planning

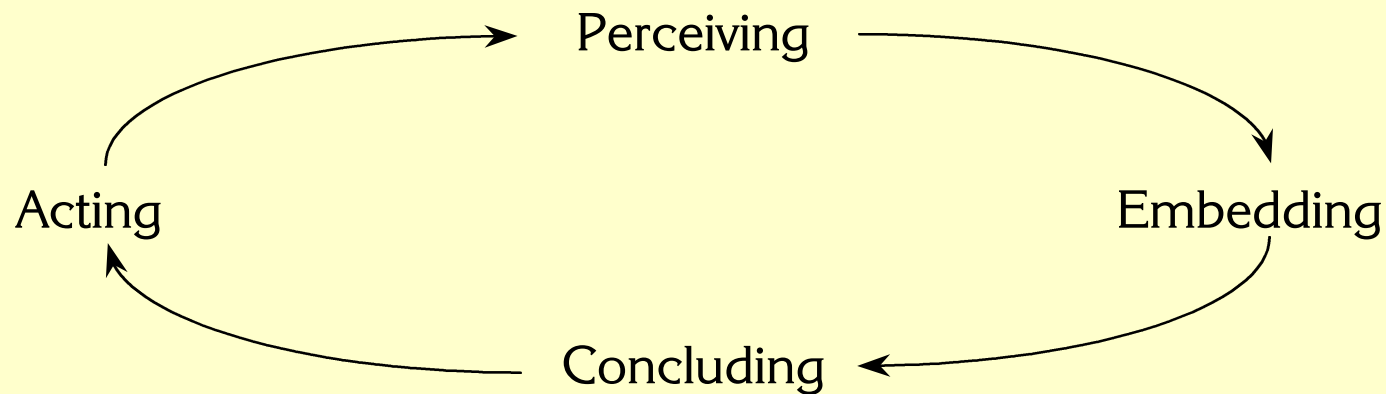
- Insatiable demand for predictions
- Astrology. “All I can do is highlight the circumstances. How you behave is up to you.” Patrick Walker - Astrologer
- Management view - take a future as “fatalistically” given
- What is planning?
 - is it reducing uncertainty through prediction, or
 - is it anticipating possible futures and preparing for them?

Scenario Planning

- Is there life after oil?
- Scenarios...
 - should be well crafted, a story
 - “the departure, the belly of the whale, initiation on the road of trials, the return”
 - not too many (2 or 3)
 - may even recognize the future

Decision Making as a Learning Activity

“A leader who learns is a leader who is unsure”



Learning by assimilation vs Learning by accommodation

Decision Making and Learning

Present decision making in organisations...

- Is slow
- Closes out options
- Depends on learning by experience, rather than learning by simulation
- Breeds fear

Essence of learning is discovery through play

Only Living Beings Learn

- Play and learn
- The “persona”
 - goal oriented
 - conscious of itself
 - open to the outside world
 - alive, but finite
- Distinction between persons and things
 - things are impacted by events but do not decide to make things happen

Is a company a “thing” or a “persona?”

Managing for Profit or Longevity

Is there a choice?

- Economic or “puddle” company
 - a viable choice
 - hard to be a learning organisation
- Living or “river” company
 - high/low (flow) but permanent
 - self perpetuating, maintains identity
 - ROI still important

Cohesion with Variety

- Value in diversity
- Common values
- Question of top salaries
- Recruitment policies
 - of puddle company
 - of river company

What will bind together the members of this work community (Shell) when the world moves away from computers and oil?

Flocking

The Titmouse and the Milk Bottle

- Innovation as individuals or community
- Social propagation - established process for transmitting a skill from individual to company
- Mobility - individuals move around rather than settling in isolated territories

The Tolerant Company

Pruning Roses

- Tolerance wastes resources
- Letting things “happen” at the margin
- Diversification by tolerance vs diversification by dictum
- Parable of Chilean Potato
- Intolerant companies live long and do well IF they have control over the world they live in

Strategic Planning

- Poor track record
- Strategy...
 - as a verb - something you do
 - as learning, not steering
 - as the development of the organisations' ability to learn

Life is a path that you beat while you walk it

The Corporate Immune System

- Corporate body, like human body, needs immune system
- Limit to openness and tolerance
- Mergers and acquisitions...
like infections
failure rates around 50-75% (Porter)
- Parasites

If a company begins to perform seemingly self-destructive acts, you should ask, “Whose interest is served by this destructive act?”

Conservatism in Financing

- Money is important
- Entrepreneurs with high debt/low equity underperform
- Long lived companies have money in hand
- “Stewards, not gamblers”
- Long term survivor does not define life in economic terms, but in evolutionary terms
- Cost of “company deaths”

Power

The centralization of power is inappropriate for the operation of a living company. It reduces the learning capacity of an organisation. The alternative is to develop an ethic of distributed power.

- Shell no CEO
 no casting vote for Chairman
 no voting, only veto
- Balance - control and freedom

The Company of the Future

More and more companies will be growing potatoes in the Andes, rather than the glass house.

- The company is a living being
- The decisions for action made by this living being result from a learning process
- Companies should not all live forever; but a reduction in corporate mortality seems advantageous