Strategic Direction

Live long and prosper: the search for business longevity

Kamal Sharma, Mukund R. Dixit,

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Introduction

The longest continuously operating family firm in the world shut shop in the recent years after thriving for 14 centuries, having led by 40 members of the founding family through its lifetime (Hutcheson, 2007). In a business scenario where the life-expectancy of Fortune-500 companies is around 50 years (de Geus, 1997), what are the factors that let this Japanese temple builder Kongo Gumi live for 1,428 years? Are there any lessons from this company, and those from other long-surviving companies, that might enable you to ensure the longevity of your business enterprise?

Kamal Sharma is a Member of Faculty in Strategic Management Department, Indian Institute of Management, Indore, India.
Mukund R. Dixit is Professor at the Indian Institute of Management, Ahmedabad, India.

The challenge

Owners and managers of almost all business organizations across countries face a common question at some point in time or the other: should short-term profitability be compromised for the sake of long-term survival? In a rapidly changing business and technology environment, it might seem foolish to act toward a goal placed 50 years from now rather than meet the next quarter's financial goals. Indeed, as some cynics point out – in the long-term we are all dead. Yet, across the world there are many examples of firm that have thrived for centuries: In India, banking and financial sector is dominated by banks that are more than a hundred years old; in Japan, the society called "Shinise" (established and long-standing company) welcomes firms which have lived to be more than a hundred years. The French fraternity of "Les henokiens" is made of firms that have survived for 200 years, while to be a part of British "Tercentenarians Club", a firm should have survived for three centuries.

The classic equilibrium model widely accepted in business schools is inadequate to explain this dichotomy. According to this model, a firm needs either exceptional capabilities, extraordinary rights or capacity to continuously respond to competition, just to prevail over others in the market. The experience of these long-surviving firms provides some answers to the challenge of longevity while ensuring the vitality of the firms in the present, and researchers have studied such firms to uncover aspects of longevity. Some of the aspects identified by researchers might appear to be common-sense knowledge, while others might be counter-intuitive to some.

Keys to longevity

Be conservative

One such aspect of longevity and sustenance of firms is, rather surprisingly, to be conservative about change. Managers today are asked to be on the leading edge of change and to adapt aggressively to the rapidly changing environment. The pressure to exploit newer opportunities and invest resources to ward off potential threats is high,

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particularly in the digital era. However, long surviving firms are known to stay true to their core values and principles and usher in large-scale radical changes very selectively. The Japanese temple builder Kongo Gumi mentioned earlier stayed in its core activity of building temples right through its life, rarely drifting from its core motivation. Also, when the external environment is going through intense, large-scale but potentially short-term turbulence, it is often better to wait-and-watch rather than respond in an *ad hoc* manner to the changes.

Be rooted

A related issue is that of exploiting and exploring opportunities. Many cultural stereotypes celebrate the individual hero: the explorer who sails through uncharted waters to discover new lands and plant his flag; the bogatyr who fights to protect his turf and his people. The business reality, though, is nuanced. Long surviving and respected firms focus their attention on exploiting the segments and markets they are already good at, rather than spreading themselves thin in trying to win an uncertain bet. It is better to focus on your strengths, and exploit your advantageous positions rather than take risky steps in the dark.

Diversify sensibly

This, however, is not to say that diversification is not recommended. Diversification as a de-risking strategy is yet another way of ensuring that your sustenance is ensured even when one/more of your market segments are facing issues beyond your influence. Focusing only on a narrow stream of business can expose you to various market, business-cycle, regulatory, competitive, and other risks; expanding too widely could create issues of control and coherence. Diversification as a strategy works best when the economies of scope of underlying businesses together are large enough to be exploited by the parent firm.

Compete, but also co-operate

Whether it is de-risking or exploiting resources, a crucial tacit assumption made by managers is that their actions and fate are independent of others. Long-surviving firms often take a different perspective; they acknowledge the importance of co-operation with their peers on crucial junctures, even if they present competition to them. The Japanese Sake brewing industry survived and prospered even when their host city lost its position as the country's capital, and later when the World War devastated their country's economy. Individually, many of the firms could not have survived these disasters; however, the firms developed a culture where they came together, shared resources, and sustained not just each other but also the local communities that had nurtured them. More recently in 2004, Sony and Samsung formed a joint venture to together develop technology for Liquid Crystal Display panels (Ihlwan, 2006) disregarding the usually understood competitive dynamics in the electronics industry.

Looking back

To those companies that live long, age becomes a valuable resource in itself. Consumers see a continuous track record of a firm as a proxy for good quality, and long history can provide managers institutional memory to leverage toward further sustainability. "Long history" not only can provide anecdotes and stories to employees that exemplify the tacit core values of the firm but also, quite counter-intuitively, could be useful in transforming cultures and traditions. Looking back at the firm and knowing the mistakes committed or identifying what works well for the firm, can provide rich insights which can be used for developing strategic advantages. Such insights might not be available to other firms in the competitive landscape and can become self-sustaining over time.

At the cost of being clichéd, one can state that longevity is a journey and not a destination. Long surviving firms are like trees which face vagaries of nature and challenges of internal decay and yet survive to grow from a sapling to a sturdy tree. Surviving one challenge does not automatically insure a firm from the next, but gives it an additional skill to sustain itself through it. Those firms which accumulate such skills and dip into their pool of retained wisdom through their life have a good chance of crossing existential hurdles to become "Shinise". Longevity challenge encompasses both continuity and change, but the experience filtered from many long-lived firms across the globe provides us with insights that could inspire many more to live long and prosper.

Comments

The article is based on "The four principles of enduring success" by Stadler (2007), "In search of an integrated framework of business longevity" by Napolitano *et al.* (2015), and the corresponding author's own research.

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About the authors

Kamal Sharma (corresponding author) is a Member of Faculty in Strategic Management Department of Indian Institute of Management Indore (India). Kamal Sharma is the corresponding author and can be contacted at: kamals@iimidr.ac.in

Mukund R. Dixit is an Independent Management Researcher and Facilitator. He worked as Professor at Indian Institute of Management Ahmedabad (India) until November 2016 and retired as a Chairperson of Business Policy research area of the Institute.