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HOW TO LEARN FROM THE PAST WITHOUT GETTING STUCK IN IT

LESSONS IN CORPORATE RENEWAL

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Corporate mortality is a hot topic. Scholars and consultants keep cropping up in the news with reports on the decline of the lifespan of major corporations. The BCG Henderson Institute found that the average lifespan of a public listed company has declined from 55 years in 1950 to 20 years in 2015. BBC News reported that the average lifespan of a company listed on the S&P 500 had decreased from 67 years in 1920 to 15 years in in 2012. Much of the disappearances are down to mergers, acquisitions and bankruptcies, but why is this happening? And how can companies renew themselves to remain competitive and relevant?

Understanding this can help senior executives build strategic plans for their own organizations. So it's surprising that we don't see more studies on corporate longevity. The reason for this might be the difficulty in separating the strategic actions from the lucky ones and other possible 'halo effects'. In an ongoing study at IMD called *Corporate Renewals*, we are examining the corporate histories of 16 firms that have been on the Fortune 100 list from 1975 to today. Many of these companies are over 100 years old and have appeared in studies examining corporate excellence. We call them 'corporate renewers'.

In the first stage of our study, we're taking a 'counterfactual' approach: trying to come at this differently from past studies. We're working to understand how the companies' actions played an essential role in their renewal. To do this, we have examined three aspects of each company's corporate history: product launches, mergers and acquisitions, and divestitures.

Our approach is helping us to gain insights into the companies' important strategic actions. Some of these actions are well known – others not so much. For example, Boeing's 707 aircraft was developed from a long line of variants built on the success of B-17 bomber (B-29, B-47, B367-80). Had Boeing not decided to finance the B-17 project itself to compete against Douglas' DB-1 and the Martin Model 146 in 1935, the B-17 Flying Fortress bomber would never flown a single mission. Interestingly enough, Boeing's B-17 prototype (Model 299) failed in its test flight, but the US Air Force saw enough potential in the Model 299 and Boeing to approve the aircraft.

Three lessons in corporate longevity

The Boeing example is just one of many that we have uncovered in our study. We still have more research to do, but here are three lessons that we've learnt so far that might be of use to organizations.

1] Corporate renewers know that not all important moves are big ones
Many of the companies we are studying have gone through enormous mergers and acquisitions to remain competitive: PepsiCo purchasing Tropicana, Proctor & Gamble acquiring Gillette. However, not all important moves have been on that scale. In 1996, IBM acquired Tivoli Systems, a small software company in Austin, Texas. In 1996, Tivoli Systems was less than seven years old, but it was considered a fast-growing market specialist in managing networks. IBM's CEO at the time, Louis V. Gerstner, Jr., realized that businesses were leveraging computer networks to remain competitive. By acquiring Tivoli Systems, IBM would better position itself in this growing market space. The development of Tivoli software and more than 20 acquisitions related to Tivoli led the IBM Tivoli Software group to become IBM Cloud & Smarter Infrastructure.

2] Corporate renewers don't live in the past
These organizations enter and exit market spaces to take advantage of opportunities. They don't let the past dictate their future vision. Recently GE sold its plastics division to Saudi Arabia Basic Industries Corporation (SABIC) for $11.6 billion. This division employed 11,000 people in 20 countries. It was formed in the 1930s and played an important role in GE's growth. One of the division's most important products is Lexan, which is used in bulletproof glass, water bottles and mobile phones. Former CEO and chairman Jack Welch himself led the innovation of this product. However, GE is not sentimental. The plastics division is not part of GE's future vision, so it sold it off.

3] Corporate renewers manage efficiency and innovation at the same time
Many companies fail because they can't do this: they aren't ambidextrous. Research shows that only 2% of companies actively pursue both efficiency and innovation. One example of a company that does manage this is Caterpillar. It is one of the world's leading manufacturers of construction and industrial equipment, but it prides itself on innovation. Caterpillar supports open innovation and collaboration: its technology group includes members from outside the organization. And most importantly, it is willing to explore new ideas. In 1986, Caterpillar created the Caterpillar Logistics Services group, which was so successful that it is now its own company (Neovia) offering services to Caterpillar and other corporate clients. More recently, Caterpillar entered into a strategic alliance with Ritchie Bros for accelerating Caterpillar's internet of things connectivity offerings.

We are living in hypercompetitive, volatile and uncertain times. Whatever the outlook, the fact is that competition is intense and it is increasingly difficult for organizations to maintain advantages over long periods in markets that are constantly changing and blending.

Strategic renewal and corporate longevity are more important today than ever before. Our research findings show that leading companies are better able to deal with these times because they are constantly striving to remain competitive and relevant. They are willing to turn away from their past, embrace small moves, and think ambidextrously. We will keep publishing our findings as we progress.

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