People set to live longer than big companies

By Stéphane Garelli

THE trials and tribulations of Blackberry, Yahoo or Twitter remind us that companies can and do disappear. The large companies of today are not the same as those of yesterday. The process of creative destruction highlighted by Schumpeter is still in action. Indeed, it is accelerating.

A recent study by McKinsey found that the average lifespan of companies listed in Standard & Poor's 500 was 61 years in 1958. Today, it is less than 18 years. McKinsey believes that in 2027, 75 per cent of the companies currently quoted on the S&P 500 will have disappeared. They will have been bought out, merged, or will go bankrupt like Enron and Lehman Brothers. Some companies manage to escape this mass destruction. General Electric, Exxon Mobil, Procter & Gamble, and DuPont are among the oldest companies on the New York Stock Exchange. Nevertheless, the largest market capitalisations today have new names: Apple, Alphabet, Microsoft or Amazon.

Why do large companies disappear? The English economist EF Schumacher asked this question in 1973 when he published his influential book *Small is Beautiful*. He exposed the inefficiency of large enterprises and anticipated the current trend towards sustainable development. He maintained: "What characterises modern industry is its enormous consumption to produce so little . . . It is inefficient to a degree that goes beyond imagination!"

Another reason may be that the size of companies leads inexorably to more complexity and thus, more vulnerability. The second law of thermo-dynamics, defined, among others, by Sadi Carnot and Rudolf Clausius, specifies that all closed systems lose energy and thus require a continuous energy intake in order to subsist. This loss of energy is called entropy. By analogy, that is what kills large companies. Large companies need a continuous input of more and more management energy simply to remain in existence. The larger the company, the more energy it needs to survive. In short, large companies spend more time managing themselves than they do managing their clients.

The "too big to fail" principle that seems to shield large companies against disaster because of the systemic risk that they represent for the global economy is not foolproof protection either. The extraordinary growth of mergers and acquisitions during the past few years and the consolidation of the world market underline that large enterprises remain quite vulnerable.

As the life expectancy of companies drops, ours is increasing. Since the beginning of the century, 50 per cent of the children born in advanced economies can expect to live up to 100 years old. In addition, the retirement age will certainly increase. The new generation, the Millennials, will probably have to work longer and will do a lot of job hopping during their lifetimes.

It will imply more flexibility in the labour market and more mobility for employees. Also, an increasing number of people will work outside the traditional set-up of corporate employment. This is what is already happening in the sharing economy. For example, in the US, almost one-third of all employees have an independent or contingent activity and are not linked to a company by a full-time working contract.

With such a trend, people will increasingly become "partners" of companies rather than full time "employees". They will manage a multitude of business relationships and will not necessarily have an office inside a given company. They will take charge of their lives and feel freer to change their career paths. If companies disappear faster, if they cannot guarantee a long-term work relationship, then they should not be surprised if people turn out to be more self-centred and more self-reliant in their career.

▮ The writer is the founder of IMD's World Competitiveness Center.

MSLGROUP

80 Anson Road, #33-00, Fuji Xerox Towers, Singapore 079907
T: +65 6327 0270 | F: +65 6327 0272
mslgroup.com

People set to live longer than big companies

Wednesday, March 1, 2017 - 05:50

by
STEPHANE GARELLI

THE trials and tribulations of Blackberry, Yahoo or Twitter remind us that companies can and do disappear. The large companies of today are not the same as those of yesterday. The process of creative destruction highlighted by Schumpeter is still in action. Indeed, it is accelerating.

A recent study by McKinsey found that the average lifespan of companies listed in Standard & Poor's 500 was 61 years in 1958. Today, it is less than 18 years. McKinsey believes that in 2027, 75 per cent of the companies currently quoted on the S&P 500 will have disappeared. They will have been bought out, merged, or will go bankrupt like Enron and Lehman Brothers. Some companies manage to escape this mass destruction. General Electric, Exxon Mobil, Procter & Gamble, and DuPont are among the oldest companies on the New York Stock Exchange. Nevertheless, the largest market capitalisations today have new names: Apple, Alphabet, Microsoft or Amazon.

Why do large companies disappear? The English economist EF Schumacher asked this question in 1973 when he published his influential book Small is Beautiful. He exposed the inefficiency of large enterprises and anticipated the current trend towards sustainable development. He maintained: "What characterises modern industry is its enormous consumption to produce so little . . . It is inefficient to a degree that goes beyond imagination!"

Another reason may be that the size of companies leads inexorably to more complexity and thus, more vulnerability. The second law of thermo-dynamics, defined, among others, by Sadi Carnot and Rudolf Clausius, specifies that all closed systems lose energy and thus require a continuous energy intake in order to subsist. This loss of energy is called entropy. By analogy, that is what kills large companies. Large companies need a continuous input of more and more management energy simply to remain in existence. The larger the company, the more energy it needs to survive. In short, large companies spend more time managing themselves than they do managing their clients.

The "too big to fail" principle that seems to shield large companies against disaster because of the systemic risk that they represent for the global economy is not foolproof protection either. The extraordinary growth of mergers and acquisitions during the past few years and the consolidation of the world market underline that large enterprises remain quite vulnerable.

As the life expectancy of companies drops, ours is increasing. Since the beginning of the century, 50 per cent of the children born in advanced economies can expect to live up to 100 years old. In addition, the retirement age will certainly increase. The new generation, the Millennials, will probably have to work longer and will do a lot of job hopping during their lifetimes.

It will imply more flexibility in the labour market and more mobility for employees. Also, an increasing number of people will work outside the traditional set-up of corporate employment. This is what is already happening in the sharing economy. For example, in the US, almost one-third of all employees have an independent or contingent activity and are not linked to a company by a full-time working contract.

With such a trend, people will increasingly become "partners" of companies rather than full time "employees". They will manage a multitude of business relationships and will not necessarily have an office inside a given company. They will take charge of their lives and feel freer to change their career paths. If companies disappear faster, if they cannot guarantee a long-term work relationship, then they should not be surprised if people turn out to be more self-centred and more self-reliant in their career.

- **The writer is the founder of IMD's World Competitiveness Center.**