



## Director Development Shorts

### The Living Company

(ABC – DDS NO.: 0077)

#### Overview

A study by Shell Oil Company reveals four characteristics that serve to create long-term business success.

#### Discussion

In 1983, Shell Oil Company, soon turning 100 years old, commissioned a study of other companies that were as old or older than itself. While it surprisingly only found 40 companies worldwide that met this criteria\*, the study revealed that long-lived companies had four characteristics in common. In 1997, Arie de Geus, coordinator of planning for Royal Dutch/Shell Group in 1983, expanded on the long-lived company study in his book *The Living Company* and detailed these four characteristics.

#### Characteristic 1: Sensitivity to the Environment

Regardless of industry, these companies remained in harmony with the world around them. As wars, depressions, technologies and political changes surged and ebbed they seemed to excel at keeping their feelers out, tuned to whatever was going on around them.

#### Characteristic 2: Cohesion and Identity

Although a sense of belonging to an organization and being able to identify with its achievement can easily be dismissed as a “soft” feature, the employees of these companies felt as if they were all part of one entity (no matter how diversified the business). This created the sense of community. In short, these companies succeeded through the generational flow of members, all who considered themselves stewards of the long-standing enterprise. The end result, management’s top priority and concern was the health of the company.

#### Characteristic 3: Tolerance

These long-lived companies generally avoided exercising any centralized control over attempts to diversify or expand the business. In other words, they were tolerant of activities by outliers, experiments and eccentricities (those on the fringe, but still within the boundaries of the cohesive firm) which kept stretching their understanding of possibilities.

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#### **Characteristic 4: Conservative Financing**

Long-lived companies are frugal and only risked capital after careful consideration. They understand that having money in hand gave them flexibility and independence of action. This allowed them to seize opportunities without having to convince third-party financiers of attractiveness – enabling them to outpursue competitors to options.

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\* The study revealed that although there was one Swedish company that was over 700 years old, the average age worldwide of Fortune 500 type entities was between only 40 or 50 years old. Of all entities, the average age was less than 12 years old.

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