The Living Company

Arie de Geus

Foreword by Peter M. Senge

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CONTENTS

Foreword vii
Peter M. Senge

Acknowledgments xiii

Prologue: The Lifespan of a Company 1

Learning 15
1 The Shift from Capitalism to a Knowledge Society 22
2 The Memory of the Future 38
3 Tools for Foresight 55
4 Decision Making as a Learning Activity

Persona (Identity) 77
5 Only Living Beings Learn 100
6 Managing for Profit or for Longevity: Is There a Choice?

Ecology 131
7 Flocking 142
8 The Tolerant Company 159
9 The Corporate Immune System
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evolution</td>
<td>10</td>
</tr>
<tr>
<td>Conservatism in Financing</td>
<td>171</td>
</tr>
<tr>
<td>Power: Nobody Should Have Too Much</td>
<td>11</td>
</tr>
<tr>
<td>Epilogue: The Company of the Future</td>
<td>187</td>
</tr>
<tr>
<td>Notes</td>
<td>199</td>
</tr>
<tr>
<td>Index</td>
<td>203</td>
</tr>
<tr>
<td>About the Author</td>
<td>209</td>
</tr>
<tr>
<td>Index</td>
<td>215</td>
</tr>
</tbody>
</table>
FOREWORD

Peter M. Senge

It was through Arie de Geus, whom I met over 15 years ago, that I first became seriously acquainted with the concepts of organizational learning. That meeting began the journey of a lifetime.

He introduced me to the famous study done at Royal Dutch/Shell, where he was the coordinator of planning worldwide, which found that the average life expectancy of Fortune 500 firms, from birth to death, was only 40 to 50 years. The study also found many companies over 200 years old. Arie convinced me that most corporations die prematurely the vast majority before their fiftieth birthday. The majority of large corporations, he said, suffer from learning disabilities. They are somehow unable to adapt and evolve as the world around them changes.

More importantly, he got me thinking for the first time about the connections between low life expectancy and low vitality of firms while they are still operating. Both are symptoms of the overall health of the enterprise. Like individuals who are unhealthy and can expect an early demise, most large, apparently successful corporations are profoundly unhealthy. The members of these organizations do not experience that their company is suffering from low life expectancy. They experience
poor corporate health as work stress, endless struggles for power and control, and the cynicism and resignation that result from a work environment that stifles rather than releases human imagination, energy, and commitment. The day-to-day climate of most organizations is probably more toxic than we care to admit, whether or not these companies are in the midst of obvious decline.

This is a book of practical philosophy. It has been my experience that extraordinary practitioners like Arie can make unique contributions to management thinking, but that their contributions are rarely acknowledged. Unlike academics who write about what they have thought, practitioners think about what they have lived through. Because the source of their thinking is experience rather than concepts, they show how sometimes the most profound ideas are the simplest.

At the heart of this book is a simple question with sweeping implications: What if we thought about a company as a living being?

This raises the obvious question: What is the alternative view of a company if we do not see it as a living being? The alternative view is to see a company as a machine for making money.

The contrast between these two views—machine for making money versus living being—illuminates a host of core assumptions about management and organizations.

I believe that almost all of us adopt the machine assumption without ever thinking about it. In so doing, we probably mold the destiny of individual organizations far more than we imagine.

For example, a machine is owned by someone. We are used to thinking of companies in exactly that way: they are owned by owners, usually distinct from the company's members. But what does it mean to say that a living being is owned by someone? Most people in the world would regard the idea that one person owns another as fundamentally immoral. Is it no less problematic with regard to a company?

A machine exists for a purpose conceived of by its builders. Again, this is the conventional view of a company: its purpose is to make as much money as possible for its owners. But living beings have their own purpose. This inherent purpose can never be completely supplanted by the goals of another, even though a living being might respond to others' goals. What happens to
the life energy of a living being when it is unable to pursue its purpose?
To be effective, a machine must be controllable by its operators. This, of course, is the overarching *raison d'être* of management to control the enterprise. But living beings are not controllable in the ways that a machine is. (Anyone doubting this premise might consider their success in controlling their teenagers.) They are "influenceable," but only through complex interactive processes which are just as likely to alter the influencer as the influencee. Are struggles over control not the root of most corporate politics and game playing?

Going further, seeing a company as a machine implies that it is created by someone outside. This is precisely the way most people see corporate systems and procedures as something created by management and imposed on the organization. Seeing a company as a living being implies that it *creates its own processes*, just as the human body manufactures its own cells, which in turn compose its own organs and bodily systems. Is this not exactly how the informal organization of any large company comes into being? The networks of relationships and communication channels essential to anyone doing any job are indeed created by the people themselves.

Seeing a company as a machine implies that it is fixed, static. It can change only if *somebody* changes it. Seeing a company as a living being means that it evolves naturally.

Seeing a company as a machine implies that its only sense of identity is that given to it by its builders. Seeing a company as a living being means that it has its own sense of identity, its own personhood.

Seeing a company as a machine implies that its actions are actually reactions to goals and decisions made by management. Seeing a company as a living being means that it has its own goals and its own capacity for autonomous action.

Seeing a company as a machine implies that it will run down, unless it is rebuilt by management. Seeing a company as a living being means that it is capable of regenerating itself, of continuity as an identifiable entity beyond its present members.

Seeing a company as a machine implies that its members are employees or, worse, "human resources," humans standing in reserve, waiting to be used. Seeing a company as a living being leads to seeing its members as human work communities.
Finally, seeing a company as a machine implies that it learns only
as the sum of the learning of its individual employees. Seeing a company as a living being means that it can learn as an entity, just as a theater troop, jazz ensemble, or championship sports team can actually learn as an entity. In this book, Arie argues that only living beings can learn.

It is hard for me to ponder the above list of characteristics of machines versus living beings and not feel drawn to the view that Arie puts forward. Why, then, I wonder, have I not come to this view earlier? Why does it seem so difficult for me to actually think of a company as a living being? Why does this very simple idea seem not so very easy to internalize?

Is it that we think life starts and ends with us? Surely, simpler organisms are alive. Why, then, can't we regard more complex organisms, like families or societies or companies, as being alive as well? Is the tide pool, a teeming community of life, any less alive than the anemones, mussels, or hermit crabs that populate it? Is it that our mental model of "company" is just so fixed in our minds that we cannot suspend it? Or are we simply not willing to suspend it? If, indeed, we have thought of the companies of which we have been a part as machines, this implies that we are mechanical elements in the machine. A machine does not have living parts. For many of us, this has undoubtedly fostered a deep antipathy toward our organizations. At some level, we deeply resent being made machinelike, in order to fit into the machine. If there is some element of truth to this, it probably says a lot about just how important Arie's simple question actually is.

As Arie points out, the machine metaphor is so powerful that it shapes the character of most organizations. They become more like machines than like living beings because their members think of them that way.

So, perhaps our first mandate is to shift our thinking. As Einstein said, "Problems cannot be solved at the same level of awareness that created them." As we do this, the host of practical insights Arie offers for how a company as a living being might plan, learn, and manage and govern itself will prove invaluable steppingstones into what for most of us will be a very different world.

It might also help to reflect that, as odd as Arie's view might at first seem to some of us, it is in fact quite old. Apparently cultures around
the world have embraced similar notions for a very long time. In Swedish, the oldest term for "business" is *närings liv*, literally "nourishment for life." The ancient Chinese characters for "business," at least 3,000 years old, are

![Characters](image)

The first of these characters translates as "life" or "live." It can also be translated as "survive" and "birth." The second translates as "meaning."

As we enter the twenty-first century, it is timely, perhaps even critical, that we recall what human beings have understood for a very long timethat working together can indeed be a deep source of life meaning. Anything less is just a job.

PETER M. SENGE
DECEMBER 6, 1996
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The material for this book has accumulated over many years in a constant dialogue with many people. It was an integral part of my being together with colleagues at Shell, who came from many countries and from varied backgrounds and with whom I worked in the demanding milieu of a multinational company. It was also conducted with the many people I met in the world of international business. And perhaps most important, it was an intense, indispensable element of my work with Group Planning colleagues, many of whom are mentioned by name in this book for their specific contributions to the body of thought on the living, learning company. And around Shell Group Planning there was and is that network of remarkable people from musicians and film directors to academics and consultants that provided such inspiration.

All together, these people supplied me with the material of which experience is made. Together we lived through the events that have become the growth buds for questions about companies' purpose, their very nature, and what that means for their managers. The questions led to a search for answers, and it is this search that forms the backbone of the book. In the first month of my first year at university,
the professor of philosophy looked sternly at us novices and said, "Remember, you will never have an original thought in your life. Every thought, every idea will already have been thought long ago by someone else." He was right. I owe a great debt to all my interlocutors in that dialogue.

The writing of this book would never have occurred were it not for Harriet Rubin, a graduate in poetry and a publisher with sharp intuition, who realized there could be a book long before anyone else, with the exception of Napier Collyns. Over the years, both never ceased to encourage me finally to write that book. Still, it took Nan Stone, then a senior editor at the Harvard Business Review, a week of her annual leave to coach me through the material and to help me arrive at the conclusion that, after all, it might be worth a try. Her prompting and my growing experience of lecturing in many countries for a wide range of audiences finally crystallized and honed the ideas that had germinated in the rich environment of Shell's planning coordination.

Those ideas in manuscript form received the attention of an additional coach, Marjorie Williams of the Harvard Business School Press, whose editorial suggestions led to further development of the book. Napier Collyns and Nan Stone persuaded Art Kleiner, historian and author, to take the time to reshape the manuscript around its main theme of "the living company." My thanks go to all for entering into the dialogue.
PROLOGUE:
THE LIFESPAN OF A COMPANY

In the world of institutions, commercial corporations are newcomers. Their history comprises only 500 years of activity in the Western world, a tiny fraction of the time span of human civilization. In that time, as producers of material wealth, they have had immense success. They have been the major vehicle for sustaining the exploding world population with goods and services that make civilized life possible. In the years ahead, as developing countries expand their standards of living, corporations will be more needed than ever.

Yet, if you look at them in the light of their potential, most commercial corporations are dramatic failures or, at best, underachievers. They exist at a primitive stage of evolution; they develop and exploit only a fraction of their potential. For proof, you need only consider their high mortality rate. The average life expectancy of a multinational corporation Fortune 500 or its equivalent is between 40 and 50 years. This figure is based on most surveys of corporate births and deaths. A full one-third of the companies listed in the 1970 Fortune 500, for instance, had vanished by 1983 acquired, merged, or broken to pieces. 1 Human beings have learned to survive, on average, for 75 years or more, but there are very few companies that are that old and flourishing.
There are a few. The Stora company, for example, is a major paper, pulp, and chemical manufacturer; it has had the character of a publicly owned company from its very early beginnings, more than 700 years ago, as a copper mine in central Sweden. The Sumitomo Group has its origins in a copper casting shop founded by Riemon Soga in the year 1590. Examples like these are enough to suggest that the natural average lifespan of a corporation should be as long as two or three centuries.

I didn't see these astonishing statistics until I had already spent more than two decades as a professional manager. It took another decade for their implications to fully sink in. I worked all my life for a major Anglo-Dutch multinational, the Royal Dutch/Shell Group of companies. Born and educated in Holland, I went to work for Shell directly out of college. I held jobs ranging from accountant to group planning coordinator (coordinator is the group's equivalent of a senior vice president), working on three continents and in Shell operating companies whose businesses ranged from refining to marketing to exploration and from oil to chemicals to metals. As it happens, I am a second-generation Shell man, because my father worked for the same company. During our two generations, he and I clocked 64 working years. So it cannot be a great surprise that, for a long time, I took it for granted that most companies (including Royal Dutch/Shell) simply could not die. They would naturally exist forever.

Well, they don't. Even the big, solid companies, the pillars of the society we live in, seem to hold out for not much longer than an average of 40 years. And that 40-year figure, short though it seems, represents the life expectancy of companies of a considerable size. These companies have already survived their first 10 years, a period of high corporate "infant mortality." In some countries, 40 percent of all newly created companies last less than 10 years. A recent study by Ellen de Rooij of the Stratix Group in Amsterdam indicates that the average life expectancy of all firms, regardless of size, measured in Japan and much of Europe, is only 12.5 years. I know of no reason to believe that the situation in the United States is materially better.

The implications of these statistics are depressing. Between the centuries of age of a Stora or a Sumitomo and the average lifespan—whether 12.5 or 40 years—there exists a gap which represents the
wasted potential in otherwise-successful companies. The damage is not merely a matter of shifts in the Fortune 500 roster; work lives, communities, and economies are all affected, even devastated, by premature corporate deaths. Moreover, there is something unnatural in the high corporate mortality rate; no living species, for instance, endures such a large gap between its maximum life expectancy and its average realization. Moreover, few other types of institutions—churches, armies, or universities—seem to have the abysmal demographics of the corporate life form.

Why, then, do so many companies die prematurely? There are many speculations about the reason, and this area undoubtedly needs much more research. However, there is accumulating evidence that corporations fail because the prevailing thinking and language of management are too narrowly based on the prevailing thinking and language of economics. To put it another way: Companies die because their managers focus on the economic activity of producing goods and services, and they forget that their organizations' true nature is that of a community of humans. The legal establishment, business educators, and the financial community all join them in this mistake.

Some Companies Last Hundreds of Years

These understandings stemmed from a surprising study which we conducted in 1983, when I was coordinator of planning for the Royal Dutch/Shell Group. Royal Dutch/Shell, based in Britain and the Netherlands, is one of the top three corporations in the world in size composed internally of more than 300 companies in more than 100 countries around the world. All of these companies are co-owned by an interlinked pair of holding companies, one Dutch and one British. The history of the Shell Group dates back to the 1890s. Its British founders began as sellers of oil for the lamps of the Far East (Shell was named after the fact that seashells were used as money in the Far East), while the Dutch founders imported kerosene from Sumatra. From the moment they merged, in 1906, Shell's primary business was the worldwide production and marketing of oil and petroleum.
That was true at least until the 1970s. Then, feeling the pressure of the energy crisis, Shell's managers (along with managers of other oil companies and firms in other industries) were swept up in the trend of diversification. We entered into metals, nuclear power, and other businesses that were new to us, with varying degrees of success. By the early 1980s, serious doubts had surfaced in the Shell Group about the wisdom of this diversification. Yet we weren't sure we could survive with our core oil and petroleum business alone. Reserves of reasonably accessible oil were projected to last three or four decades before they would be exhausted. Shell executives cannot avoid discussing the question: Is there life after oil? What other businesses might Shell reasonably enter? How might we prepare for switching to them as our primary business? And what effect would that switch have on our company as a whole?

In the early 1980s, the planners in my department conducted some research to see what other companies were doing with their business portfolios. But Lo van Wachem, then chairman of the Committee of Managing Directors (the most senior board of Royal Dutch/Shell managers) pointed out that the companies we had studied were nowhere near the size of the Shell Group. Size, when you get to the level of turning over $100 billion per year, presents its own unique problems. The examples were also too recent. Other companies' diversification moves had not yet stood the test of time. Some of Shell's diversification moves, like the opening of the chemicals business, were already at least 30 years old, and we still didn't have consensus within the company about their value.

Van Wachem would be more interested, he added, if the planners could show him some examples of large companies that were older than Shell and relatively as important in their industry. Most importantly, he wanted to know about companies that, during their history, had successfully weathered some fundamental change in the world around them such that they still existed today with their corporate identity intact.

That was an interesting question. Looking for companies older than Shell would mean going back to the final quarter of the nineteenth century or earlier, into the first years of the Industrial Revolution.
Tens of thousands of companies had existed in those days, in every corner of the world. But which ones were still alive today with their corporate identity intact?

Some companies exist only as a name, a brand, an office building, or a memory: remnants of a glorious past. But after some research and reflection, we began building up a list of companies that met van Wachem's criteria. In North America, there were DuPont, the Hudson Bay Company, W. R. Grace, and Kodak all older than Shell. A handful of Japanese companies traced their origins to the seventeenth and eighteenth centuries and were still thriving. They included Mitsui, Sumitomo, and the department store Daimaru. Mitsubishi and Suzuki were younger; they traced their origins merely to the nineteenth century, having emerged from the business opportunities that opened up around the Meiji Restoration (1868). During that period of fundamental change in Japan, sparked by Admiral Perry's first visit of 1853, some ancient Japanese companies had gotten into serious difficulties; but Mitsui, Sumitomo, and Daimaru had survived with their corporate identities intact.

In present-day Europe, a sizable number of firms were 200 or more years old. In fact, there were so many such firms in the United Kingdom that they had their own trade association, the Tercentenarians Club, which only accepts member companies over 300 years old. However, most of these were family firms that did not meet our size requirements; many of them still under the control of the founding family dynasty.

We commissioned the study, written by two Shell planners and two outside business school professors, to examine the question of corporate longevity. From the very first moment, we were startled by the small number of companies that met van Wachem's criteria of being large and older than Shell. In the end, we found only 40 corporations, of which we studied 27 in detail, relying on published case histories and academic reports. We wanted to find out whether these companies had something in common that could explain why they were such successful survivors.

After all of our detective work, we found four key factors in common: