



WHY YOU WILL PROBABLY LIVE LONGER THAN MOST BIG COMPANIES

BIG COMPANIES USED TO HAVE A LIFESPAN OF 61 YEARS, IT'S NOW DOWN
TO 18

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The tribulations of Blackberry, Yahoo or Twitter remind us that companies can and do disappear. The large companies of today are not the same as the ones 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 life-span 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% of the companies currently quoted on the S&P 500 will have disappeared. They will be bought-out, merged, or will go bankrupt like Enron and Lehman Brothers. Some companies manage to escape this mass destruction. General Electric, Exxon Mobile, Procter & Gamble and DuPont are among the oldest companies on the New York Stock Exchange. Nevertheless, the largest market capitalizations today have new names: Apple, Alphabet, Microsoft or Amazon.

Why do large companies disappear? The English economist E. F. 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 characterizes 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% of the children born in advanced economies can expect to leave 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 labor market and more mobility for employees. Also, an increasing number of people will work outside the traditional setup of corporate employment. This is what is already happening in the sharing economy. For example, in the US, almost 1/3 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-centered and more self-reliant in their career."

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