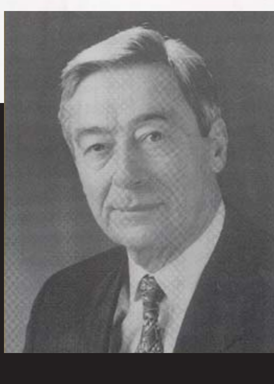
THE LIVING COMPANY

Habits for Survival in a Turbulent Business Environment

Arie de Geus

FOREWORD BY PETER M. SENGE



ARIE DE GEUS worked for Royal Dutch/Shell for 38 years. Widely credited with originating the concept of the learning organization, he is a visiting fellow at the London Business School and a board member of the MIT Center for Organizational Learning.

If great books about leadership are unusual (which they are), great books about management (what a dull subject) are "as rare as hen's teeth." That makes The Living Company*: Habits for Survival in a Turbulent Business Environment*, an enormously valuable find. In The Living Company Arie de Geus enlightens the reader with insights gleaned over nearly 40 years at Royal Dutch/Shell Group. During his tenure at Shell, de Geus spent a number of years researching long lived, highly successful companies with an eye to identifying their defining attributes. According to de Geus, the average life expectancy of even the largest, most "successful" companies is a startling short 40 to 50 years. Moreover, ". . . 40% of all newly created companies last less than 10 years . . . [while,] . . . the average life expectancy of all firms, regardless of size . . . is only 12.5 years." Yet, some companies live and prosper for centuries. What is their secret?

De Geus, sees two primary types of companies: Short lived companies, which he refers to as "economic companies," on the one hand, and long lived companies which he terms "living companies," on the other. The "economic company," premised upon an erroneous view of man as "Homo economicus" and managed primarily for near term profit, treats a majority of its workforce as "them," i.e., as abstract production inputs like raw materials, energy or machines; it values monetary capital over intellectual capital; in the absence of trust, it employs hierarchical controls to govern and "stabilize" the enterprise; and, it tends to be intolerant of creativity and development away from its core business. By contrast, the "living company," premised upon a genuine view of man . . . the willful Homo sapien . . . and organized to perpetuate itself, finds cohesion in the values it and its broad membership share; while seeing return on investment as important, it understands that the optimization of capital cannot occur absent the optimization of people; it exists primarily as a community formed as the result of an implicit "human contract" (i.e., the individual member delivers "care and commitment" and the company treats the individual member as a person and attempts to provide opportunities for each to develop to her or his potential); and, finally, it is "governed" through a system of distributed power against a backdrop of mutual trust. In such a company, management's primary obligation is to foster the atmosphere of freedom and tolerance necessary to the company's experimentation, its learning, and its evolution.

Importantly, de Geus argues that the living company, notwithstanding its elevation of people over short term economic performance, indeed because of that elevation, produces superior economic results over the long term. In part, it produces superior results because it spreads start up costs over decades, or better, centuries; in part, because it avoids the terrible economic and human company-specific (as well as societal) costs associated with "downsizing" or "re-engineering"; in part, because it evades the even more terrible costs of dissolution; and in part, because it simply learns to do things better and to do new things sooner than its dull-witted competitors. The management of a company to facilitate learning, i.e., so as to give rise to a "living company," is therefore, de Geus points out, in the best interests not only of its members and of society at large, but of its shareholders. Unfortunately and ironically, however, in an age in which such an approach to business has become increasingly important and valuable, the emphasis on quarter to quarter earnings has intensified, thus imprisoning many companies in a faulty economic model. De Geus contends that the solution will emerge slowly, initially lead by the understanding that the true source of modern corporate value creation is knowledge and the people who beget and retain it. The appreciation of members of a company as people (as opposed to "human resources") will follow naturally. Then over time, corporate law will be restructured to reflect the new realities of the "age of knowledge."

Pundits of creative destruction such as Richard Foster and Sara Kaplan see things differently, of course. But, one need not agree totally with any theory to find great value in it and I believe the theory advanced by de Geus provides its student with such value.

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