FACTORS AFFECTING THE LONGEVITY OF BUSINESS ENTERPRISES: A PRELIMINARY VIEW

"History is filled with the sound of silken slippers going downstairs and wooden shoes going up."

— Authorship Uncertain

Very recently the leading department store of one of the younger city centers of the Southwest advertised that it was the only store on the city's principal shopping street which was under the same ownership and management, and operating in its original location, as in 1915. This claim not only aroused no astonishment but no apparent comment. Part of the folklore of this country is the transitory nature of business ventures. We live in a highly changeful society, not least in its economic aspects. For several generations two massive social economic trends have been clearly apparent, the one toward urbanization, the other toward new economic and even climatic frontiers. When we view developments from the perspective point of the present day, the Turner interpretation of the closing of the historic frontier assumes its proper place as only one stage in a changing and expanding sequence of design. While the analogy should not be pushed too far, our complex and sophisticated economic machinery has fostered a curious amount of nomadism, of coming and going, of enterprises and people. If this observation appears exaggerated, consider the response if, in the more urbanized portions of the country the simple question is put to a group of adults, "How many of you live in the house of your birth, or even childhood?"

Superficially viewed, the lifespan of business enterprises may appear readily determinable as being obviously measurable — a simple matter of dates. In reality, records often are neither complete nor available, nor are they necessarily easily interpreted when complete and available. In single illustration of the point, the very fact of the failure of an enterprise may facilitate examination of its circumstances through the use of legal or other public records. On the other hand, the conditions under which absorption or liquidation takes place may be accompanied by loss of records or unwillingness on the part of principals to contribute information.

A sensible approach to the problem of longevity in business organizations seems to demand, then, that some limits of time and circumstance be set and that the chief definitional problem, that arising in connection with the term "longevity," be dealt with.

For present purposes I am establishing three general limitations in time and circumstance. The first of these is that to keep the paper within reasonable bounds the period emphasized is restricted not only to the modern age but to the current century and its immediate forerunner. While times are never the same, especially in a dynamic society, the defined period does possess certain common patterns.

The second limitation is that "Business Enterprises" are equated with "private enterprises." The definition may appear arbitrary but it is hoped that it will appear defensible. To a very considerable extent modern society is heterogeneous rather than homogeneous, representing a commingling of machineries and ideas on an increasingly vast and complex scale.[1] By virtue of these trends, a straightforward distinction which attempts to isolate private business from non-private business admittedly represents oversimplification. Nevertheless, in seeking to get to grips with the factors importantly influencing the lifespan of business enterprises, there does seem point in attempting to put aside those situations where social, political, or military interest not only substantially intermingle with but may dominate conventional economic concerns. To do otherwise will blur the picture, it is suggested. The life of an industry in a Socialistic state, for example, depends upon substantially different considerations than prevail in a regulated private enterprise economy such as that of the United States.

As a third limitation, I am restricting my suggestions primarily to business enterprises of the American economy, again in hope of somewhat easing the problem of unity.

The question as to what actually constitutes the lifespan of an enterprise arises when we attempt to determine the meaning of longevity. What constitutes an acceptable continuity of life in the case of any formal organization? It is not uncommon to find unincorporated firms in operation long after the founder-owners have died or otherwise wholly severed their connection. When a corporate structure, new or old, absorbs one or more companies is it fair to count them as maintaining continuity? If an organization spins off or otherwise discards one or more of the activities which marked its previous career and turns to others, while maintaining its original charter or title, do we have an acceptable continuity? In cases such as these, in short, should structure or activity count in determining the lifespan? Should the "line of descent" rest on legal reasoning or function, on the continuance of the shell or its content?

While the success of any program for evaluating life cycles in business enterprise appears to require at least a working agreement on the meaning of the term, I find no substantial definitional acceptance, at least in the field of management theory, as to what constitutes the proper basis of longevity. I suspect that useful studies must start with a boldly stated definition and be conducted by its light thereafter. Some background help may be given by consideration of the pseudo-biological representation of the stages of organizational existence.

With the development of techniques in the field of biometrics, by such pioneers as Pearson and Raymond Pearl, the biological or "life curve" became a familiar device for generalizing concerning the stages of individual existence. So useful did the idea appear in its original application that it has been borrowed and applied to characterize the life stages of organizations of all types and forms.

It is necessary, of course, to avoid an anthropomorphic view in thinking about organizations. It is true that all enterprises are founded by people and operated by them toward the achievement of human goals, but this does not make them organisms in the life science sense. As is true of men, however, organizations are conceived, born, and destined to pass successively through stages comparable to those of infancy, childhood, adolescence, and maturity, unless cut short. An important point of difference does appear when it is reflected that to human beings death comes inevitably and permanently. An organization, on the other hand, may be designed to have, and may demonstrate, indeterminate life. In addition, business enterprises and other forms of organizations repeatedly may be restored to economical health from a moribund state by "operations" roughly equivalent to blood transfusions or the replacement of critical organs. Whether such action is desirable doubtless depends upon the point of view. In some cases revival of an enterprise at or moving toward its last gasp may be an unkindness in terms of the efficiency of the industry concerned, or, if we were able to closely evaluate the whole picture, the long run welfare of society. The question comes down to one of what the net wastage really is, and is hence unanswerable in one sense.

The point on the pseudobiological curve of organizational life currently occupied by a business enterprise, industry, or other organizational pattern may have much to do with the impact of particular factors but it appears a mistake to assume the factors vary in *kind* with the stage of development. It is the *degree* of significance of the factor which may be emphasized at a particular stage of existence. To illustrate the argument, the over-all competence of management is a general factor of obvious great importance at any stage in the life of an enterprise. It is suggested that at certain stages, notably, to follow our analogy, "infancy" and "old age," the degree of competence of management becomes highly critical to the perpetuation of the body economic. Up to a point, a previously successful and substantial firm in the full strength of maturity may be able to exist, Atlas-like, under the handicap of a mediocre management. At least this has happened often enough in the past to cause large numbers of stockholders to wince visibly when the issue is raised.

The first and continuing prime requisite of any organization, at any stage of its existence, is viability — the basic capability for existence. Viability may be defined either in terms of effectivness or efficiency. The former refers to an absolute quality, the capacity for "doing." Efficiency is a relative matter, raising the question of how well the particular entity is doing, or capable of doing, especially when measured against whatever the competitive requirements may be. A company marked on its record and current position as "superior" contains both the capability of existence and the capability of existing with great success in the face of all or nearly all the competeition confronting it. A marginal enterprise is usually taken to be one barely able to continue in the face of competition, while a submarginal firm finds itself, in the absence of a change in circumstances, in an impossible position. As a practical matter, the relative quality mentioned, efficiency, is more significant where competition plays an important part than is effectiveness in the technical sense, since those lacking sufficiently in the latter factor may expect a short and inglorious life anyhow. The practical question, that is, is not whether an enterprise functions ideally but how it compares with those with which it must struggle. "In the kingdom of the blind, a one-eyed man is king."

Before discussing specific factors influencing the viability, and hence the longevity, of organizations, it should be made clear that the same factors apply in both micro- and macroorganizational relationships, although the former refers by definition to the individual firm or enterprise while the latter term embraces all those superior or incorporative groupings of organizational patterns which may exist, whether industrywide, regionwide, or nationwide in scope. As is true of micro- and macroeconomics, there is an important place for the study of both types of relationships. An investigation into microorganization might involve a steel company while a comparable study in macroorganization would involve the steel industry as a whole. For convenience sake, the remainder of this paper will be keyed to the microorganizational approach, but it should be borne in mind that the same factors apply generally in both relationships.

Factors substantially influencing the longevity of business enterprises may be classified under two headings as (1) Internal, and (2) External. The Internal factors reduce pretty much to the various capabilities, absolute and relative, of management, while the External factors consist of all those significant considerations which impinge upon the particular enterprise from without, including specific competitive factors, the pace and interests of the entire social order, and the like.

Internal factors include:

1. The historic and current total capabilities of the management concerned, which may be broken down into such specifics as the following:

   a. The quality of decision
   b. The quality of planning
   c. The quality of organizing
   d. The quality of staffing
   e. The quality of control

Taken collectively, the points just enumerated constitute the basis at any given moment in the life of the enterprise for its total "climate" and hence its competitive strength or weakness. These capabilities are much more significant for the long run than are such often temporary strengths as strong cash position, lack of debt, control of key raw materials, patent monopolies, and the like. The same may be observed of such superficial causes of weakness as inadequate market coverage, inefficient production, inordinate cost of raw materials and power, submarginal transportation facilities, poor quality employees, noncompetitive public charges, poor public relations, and inadequate financing. Fundamentally it is the character of management which will resolve or fail to resolve such difficulties.

2. The resistance capacity of the enterprise. Quite obviously the ability to successfully meet adverse circumstance is a virtue to be desired in any organization. The only exception to this rule would be in the case of a riskless activity, business or other, and of these there are none. It will be obvious that the capacity for resistance will derive its strength or weakness largely from the quality of management available. Sheer mass and impetus of the body economic, however, seems to generate a capacity for bearing up under misfortune whether the latter is primarily internal or external in its origin. A capacity which in a sense stands separate from the specific efforts of the management.

In addition, the larger a business enterprise is, the broader its economic shadow is cast, the greater is its capacity to capitalize on weakness to build or rebuild strength, absurd as this may seem. Creditors may press small debtors severely, or readily let them go to the wall, because neither the likely resultant loss nor the prospects from a salvage operation appear to justify "trying to work something out." On the other hand, four considerations may operate to temper the approach of the creditor to a heavy debtor. There is the obvious possibility of substantial loss if a receivership or bankruptcy becomes necessary. In the second place, there is the anxiety as to the impact of a major failure on the financial market or public confidence in general. A third consideration is the possible value of leniency in terms of a continuing profitable relationship if matters can be rectified. Finally, creditors in major instances fear, for their public image as shrewd businessmen as well as the pressures they may be subjected to by business associates who have some stake in the issue and press for a not too drastic solution. Only when major creditors do not realize the true facts, or panic, do they tend to act forcefully and abruptly in the case of very large debtors, even though the likelihood of retrieving the situation may appear dim if objectively viewed.

Out of some five million separate business enterprises currently carried on in the United States, a large majority are still one-man, partnership, or at any rate "small" firms. For all of this, the unmistakable trend of nearly a century of economic life has been toward an increasing degree of economic dominance by large bodies in areas including agriculture, manufacture, retail and wholesale merchandising, and transportation. A few thousand corporations do more dollar value business than do hundreds of thousands of their little competitiors. While there may always be a prosperous living for those highly efficient small entrepreneurs who can counterbalance the weight of monolithic organizations with alert, flexible operation, basic trends in science, technology, and management theory and experience, have worked in favor of the economic giants on balance, despite the observable fact that size and power have tended to generate some dubious tendencies in the complicated stimulus-response relationships of very large enterprises.[2]

External factors significantly affecting the lifespan of business organizations include:

1. The quality and quantity of direct competition, considerations in turn largely affected by the quality of competitive management.

2. The social economic climate of the encompassing order, including the possibility of restraints and freedoms in vast variety. Where these considerations are positive in their support of economic enterprises, the enterprise finds itself accepted and "respectable." Such a climate is likely to prevail in a society not dominated by and oriented primarily to the needs of an unsympathetic agricultural or military order. Business continuity is encouraged, that is, where uncertainties are not too great and the Establishment benign.

3. Fortune. The Puritan Ethic has frowned upon the idea that fortune or luck may play an important role in deciding the rise or fall of individuals or enterprises as diminishing the dignity of effort and the accomplishments of men. That being the right man, or organization, in the right place at the right time has not played a considerable part in the success of enterprises is a highly unrealistic view. It is equally unrealistic to presume, unless managerial responsibility is extended to cover all the vicissitudes of fortune, which seems a little unreasonable, that being in the wrong place at the wrong time may not bear a primary responsibility for an unhappy outcome. Adverse circumstance may strike an organization without any prior warning.[3]

It has been suggested that conditions which would lend encouragement to the lengthening of the average lifespan might include the following:

1. A general sober progression of the over-all society, year by year and generation by generation

2. An underlying stability of the foundations and main framework of the social order, including perhaps particularly the money and credit system. Presumptively this would give assurance of a continuity mildly stimulating to business but not frenetic. A sedate concern with change would be encouraged but radical and disconcerting developments would be discouraged.

3. The environment would be marked by an absence of history. A minimum of extraordinary events, an absence of rapid technological change, and a consequent relaxation of the more severe social pressures would prevail.

Whether any such pattern as has been just outlined would represent an optimum condition for society, assuming it could be achieved, is another question. Although impossible of determination by any presently available formula, a theoretical optimum longevity for business enterprises, individual and collective, at a given time and under a given set of circumstances, may be imagined. Our lack of understanding of the ultimate goals of human society, and our consequent inability to decisively value future prospects against present ones, raises question concerning the value of such a formula if developed. The world in which we live has never been one in which "Everybody has won, and all must have prizes." Whether it would advantage the social order to severely limit the right to fail appears highly debatable. The more prosperous areas of historic societies have been those most deeply affected by the irregular profit and loss consequences of economic change. It is in the dead and dying portions of a society, in the economic backwaters, where such change as occurs consists largely of a slow deterioration, that enterprises are most likely to live a life of unprosperous marginality or less.

To judge the significance of particular factors in determining the lifespan of business enterprises calls for a reading, detailed and laborious, of the record of the past. For primary sources we must turn to obvious possibilities such as the following:

1. Company and personal records of all sorts
2. Public documents, including:
    a. Newspapers and magazines

b. Books, including company, industry, or other specialized histories, directories, biographies, and the like
c. Legal records of all sorts

Broadly speaking, the drudgery of methodical investigation of sources is less painful than is the necessity for interpretation, or so it seems when one considers how markedly the statistical machinery presently available surpasses the quality of the raw materials often available, and how subjective the decision as to the weight of a particular factor is seen to be. It is not hard to speculate generally concerning the factors influencing the longevity of business enterprises. What is difficult is to value the significance of particular factors in particular cases.

The range of opportunities for detailed investigation of this longevity issue alone, both at the micro- and macroorganizational levels, is such that it seems fair to say the possibilities have hardly been touched. Doctoral candidates in business history need pry in no dead corners for some tiny unclaimed fragment to call their own.

Ronald B. Shuman
University of Oklahoma

FOOTNOTES

[1] *From the management point of view, the principal common denominators of modern society are the size and complexity of its organizational life.*

[2] *Size and success are factors which work to "institutionalize" any large organization over a sufficient period of time. The very problem of manuevering a great body encourages a wariness which easily degenerates into undue caution in its operation. Institutionalized prosperity may bring about a competitive "running down." If the business dies or suffers severe damage, it is often in consequence of unseized rather than seized opportunities. A "civil service" type of mind tends to concern itself with perpetuation as a primary virtue, at the expense of profit ratios or other conventional marks of achievement historically cherished by owner-managements.*

[3] *Such a catastrophe struck Kennecott Copper some years ago when a plane crash in Canada killed both incoming and outgoing management.*