

Managing for Survival: A Lesson in Tolerance

In an unstable world, companies can survive over the long term only if their leaders tolerate diverse activities within the organization and create an environment in which people can both learn and share their learning.

These were the findings of an extensive research project conducted by Royal Dutch Shell Group, explained Arie de Geus at the Healthcare Forum's Healthier Communities Summit in May. De Geus, who was a group planning coordinator at Shell until 1989 and now is an adviser to various governments and institutions, including the World Bank, said the study centered on 27 companies that had survived more than 100 years with their identities intact, including duPont, Hudson's Bay, Siemen's, and Mitsubishi.

"These companies, these successful survivors, must have been very good at management for change," de Geus said. Since most of them are 200 to 300 years old (as opposed to an average corporate age of 40 to 50 years), "their world has changed considerably in that time."

SHARED CHARACTERISTICS

In studying the 27 companies, de Geus said, Shell found four characteristics to explain their survival:

- Conservative financing. "They were not clever financiers," de Geus said. "They knew the value of money in hand. If you have money in the kitty, it means you have more options, and you have more options at a time that fits you."

- Sensitivity to the surrounding world. "Their leaders were outward-looking people," he said. They were very much part of the larger world in which they lived, so they could prepare their organizations to deal with changes.

- Cohesion and company identity. "Both employees and management had a good understanding of what the company stands for and what it is about," de Geus said, and they were happy to be identified with the company's value system.

Arie de Geus defined corporate tolerance as "the extent of the openness of the system, the extent to which you're patient with new ideas and new people."

- Decentralized structures and delegated authority. "The companies have not insisted on relevance to the original business as a criterion for selecting new business possibilities, nor have they insisted on central control over moves to diversify," he said. Tolerant leaders "allowed activities to happen in the margins."

TOLERANT PRUNING

A company whose priority is survival is "in business—any business," de Geus explained. The companies in the Shell study each changed their business portfolios completely at least once. DuPont, for example, started out as a gunpowder manufacturer, became the largest shareholder in General Motors in the 1920s, and now is a chemical manufacturer.

De Geus acknowledged that changing focus runs counter to conventional wisdom. Since the 1970s, he said, we have seen that diversification can be dangerous, and management gurus have advised companies to "stick to your knitting." Yet to survive, a company's leaders must exhibit tolerance, which de Geus defined as "the extent of the openness of the system, the extent to which you're patient with new ideas and new people."

The degree of tolerance permissible depends on the degree of control the organization has over the world in which it works, he continued. In a stable world, organizations can thrive by minimizing resource use through strict internal controls. But since a stable environment is a rare luxury, companies must adapt by being open to people and ideas, both inside and outside the organization. Despite its inefficiency, "a policy of high tolerance is effective in a changing environment, and it achieves a gradual renewal of the portfolio," he said.

De Geus illustrated the importance of "portfolio renewal" with an analogy to rose pruning. In a stable climate, he said, a gardener would prune the bushes severely to direct all their resources to a few branches and maximize the size of the

blooms. But in an unstable climate, where the roses' survival is uncertain, the gardener would prune long, leaving some weaker stems to increase the chance of having some roses, even if they are not the biggest. Over a number of years, the older stems would become weaker, but the newer stems would become stronger and eventually take over.

ORGANIZING FOR LEARNING

Corporate survivors are experts, de Geus claimed, at what Swiss psychologist Jean Piaget referred to as "learning by assimilation"—changing their internal structure to restore harmony with the external world. Openness and tolerance seem to help, but "personnel management can make a major contribution to increase the learning abilities of companies."

A helpful lesson came from evolutionary biologists studying songbirds, de Geus said. They discovered that certain species evolved much faster than could be explained by Darwinian selection alone, whereas other species did not. The key is that the rapidly evolving species learned new skills inside of a generation to enable them to exploit the environment in new ways. This rapid learning, de Geus said, depends on three conditions, which can be applied to companies:

- Numerous mobile individuals
- Capacity for innovation
- Capacity to propagate this innovation

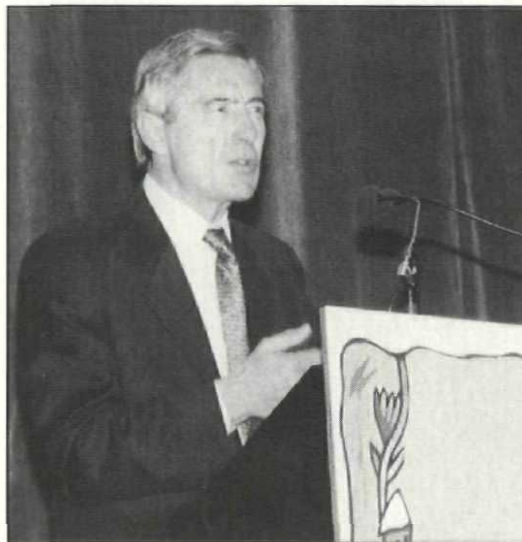
In the United Kingdom, he said, titmice learned how to peel the aluminum seals off milk bottles left at the doorstep, whereas red robins never learned this. "Both species had numerous mobile individuals; both species had individuals with capacity for innovation," but red robins communicate only in an antagonistic manner to protect their territories, whereas titmice spend the summer together flying from garden to garden, with a whole gamut of communication. "Birds that flock learn faster," de Geus concluded.

By analogy, establishing the right conditions for institutional learning requires leaders to create the space for innovative individuals, bring mobility to the work force, and create a means for propagating learning.

CREATING A RIVER COMMUNITY

Companies must be like a river, de Geus insisted, with a constant succession of new drops of water

A survivor organization sees itself as a community with members rather than a company with employees, de Geus said.



de Geus

and a lot of turbulence, as opposed to a puddle where the drops of water do not change and then evaporate when the temperature heats up. "A river is more than the number of drops it contains at any point in time because the river lasts longer," de Geus said.

What this means, he continued, is that a company ensures its continuity by creating personnel policies to manage the flow of people over time. This involves organizing the entry and exit into the organization, which is seen as a community with members rather than a company with interchangeable employees, de Geus said. People are admitted as members into the community based on a compatibility of values, which will lead to cohesion.

Within the community, there is an "underlying contract" stating that the company will develop individuals to their full potential, since "the success of the company depends on the rate and the extent to which the company succeeds in developing the potential of its members," de Geus said. "There is a harmony in this result that leads to trust, that leads to cohesion, that leads to continuity."

Finally, the company sets a fixed moment for exit and retirement. "Leadership means that you take over from somebody to hand over to somebody else," de Geus explained. "Leadership becomes stewardship, and that's very good for humility."

—Susan K. Hume