Distinguishing characteristics of centennial companies

by Oriol Amat *

It is not easy to start a business, let alone ensure it survives and grows. Companies, like people, are not immortal. The study of centennial companies is valuable because they are organizations that have managed to overcome numerous periods of economic recession and under different leadership. In times of significant change they have been sufficiently flexible to survive and continue to grow. This is what 3M did when it changed from the mining industry to producing consumer products, or Nokia when it focused its activities on telecommunications instead of cable. This article is an outline of the major characteristics of successful companies in general and centennial companies in particular.

Success in business

Success is often related to the achievement of certain objectives that the company has established. In general, one indication of success is an increase in revenue or profit. Naturally enough, companies undergoing significant growth are generally considered successful. *Figure 1* shows the three phases that can be identified in the life cycle of these companies:

Loss-making phase or Death Valley: corresponds to a period that typically lasts between two and four years in the early days of the life of the company. Nevertheless, this period is sometimes longer. For example, Amazon took nine years to make a profit when it managed to improve its logistics. At this early stage the company usually generates losses, which makes it difficult to survive. In the United States, for example, 50% of companies close before the end of their first year[1]. In the case of start-ups, newly created businesses which are normally found in new technology sectors, it is estimated that only 20% survive their first five years[2].

Initial profit-making phase: Between year 4 and year 10, the company makes its first profits and from this moment it takes a few years to find the source of competitive advantage that will allow it to become a high-growth company.

High Growth: Typically starting from year 10. At this stage, success-

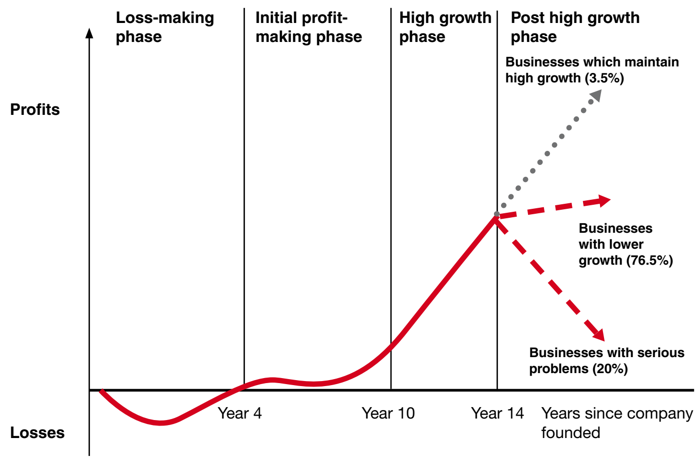
1 Small Business Administration, 2013.

2 Global Entrepreneurship Monitor, 2013.

ful companies discover the formula of differentiation, either through price, the product, quality, internationalization and so on, that gives it a competitive edge, allowing it to distinguish itself from the competition. It is the stage in which the company achieves greater growth in revenues and maximizes its profits.

One would expect that with what it costs to achieve high growth in sales and profits, the company would benefit from a long period at the top. However, this is not the case. In general, from year 14, very few companies continue to grow. According to a study of 200 high-growth companies[3], seven (3.5%) continued to be high growth companies some years after 14AD, forty (20%) had closed and the remaining 153 (76.5%) are still open, but with a certain stagnation in sales and profits (see *Figure 1*).

Figure 1. Life-cycle of businesses with high growth rates



Source: Amat, O., Hernández, J.M., Fontrodona, J. and Stoyanova, A. (2010): High-growth Enterprises and Gazelles, Observatorio de Economía Industrial, Generalitat de Catalunya, Barcelona.

The realization that success is fleeting has also been demonstrated by other studies. Thus, in Peters and Waterman's[4] study of the 43 most successful American companies, we can see that today many of them have disappeared or have had serious difficulties (American Airlines, Delta Airlines, General Motors, K Mart, Kodak, NCR, and Polaroid, among others).

Returning to the study of high-growth companies and analyzing the differences that disappear a few years after reaching high rates of growth, we can conclude that companies that achieve lasting rates of high growth display the following characteristics:

- After the first years of high growth they are able to maintain a high level of effort and ambition.
- They professionalize the company as it grows. For example, the compact management team needed when the company is small is not the same as is required when the company has gone from small to medium or from medium to large.
- They continue to invest in innovation and quality.
- They ensure that debt is not excessive, by capitalizing and reinvesting

3 Amat, O., Hernández, J.M., Fontrodona, J. and Stoyanova, A. (2010): High-growth Enterprises and 'Gazelles, Observatorio de Economía Industrial, Generalitat de Catalunya, Barcelona.

4 Peters, T.J. and Waterman, R.H. (1982): In Search of Excellence, Warners Books, New York.

most of the profits.
- They are market-oriented.
- They are committed to internationalization.
- They establish cooperation agreements with other companies in order to compete more effectively.
- They effectively manage changes in their leadership.
- They appropriately manage the conflicts generated by high growth-rates and the subsequent distribution of wealth.

The world's oldest company is the Japanese hotel Nisiyama Onsen Keiunkan, which was founded in 705

Business longevity

Most studies put the average corporate lifespan as between 12 and 15 years. For companies in the elite Fortune 500 list, which include the major US multinationals, the average lifespan is 40 years. The world's oldest company is the Japanese hotel Nisiyama Onsen Keiunkan, which was founded in 705. A 2008 study by the Bank of Korea found there were 5,586 businesses in a total of 41 countries, over 200 years old. The list of the world's longest running businesses includes four Spanish wineries: Raventós (1497), Codorniu (1551), Chivite (1647) and Osborne (1772). Also on the list can be found the world's oldest publishers, *Publicacions de l'Abadia de Montserrat* (Barcelona) backed by the Church and founded in 1493. Companies from all sectors can be found among the centennials, although the food industry is the most represented sector. Internationally, besides those already mentioned, well-known examples can be found in the automotive industry (Mercedes, Suzuki, Audi), gas industry (Gas Natural), food and beverages (Johnnie Walker, Toblerone, Artiach, Miguel Torres, Vichy Catalán), cosmetics (L'Oreal, Max Factor, Marie Claire), clothes and shoes (Fred Perry, Converse), banking (Monte di Paschi, La Caixa) and so on. According to the SABI database, there are 345 companies in Spain that are over a 100 years old, of which only five are over 200 years old and only 3 over 300 years old. Of the overall total for Spanish companies, 60 are Catalan.

Distinguishing characteristics on the international level

Numerous studies have identified the distinguishing characteristics of centennial companies. Thus, De Geus[5], after an exhaustive study of forty centennial companies from different countries found that the main differences in comparison with other more short-lived companies were the following:

- They are more sensitive to changes in the environment and have a greater capacity to learn from and adapt to new trends.
- They give a high priority to values, a sense of identity in relation to the company and cohesion.
- They are more tolerant and decentralized.
- They have a conservative financial strategy and are not given to ostentation and waste.

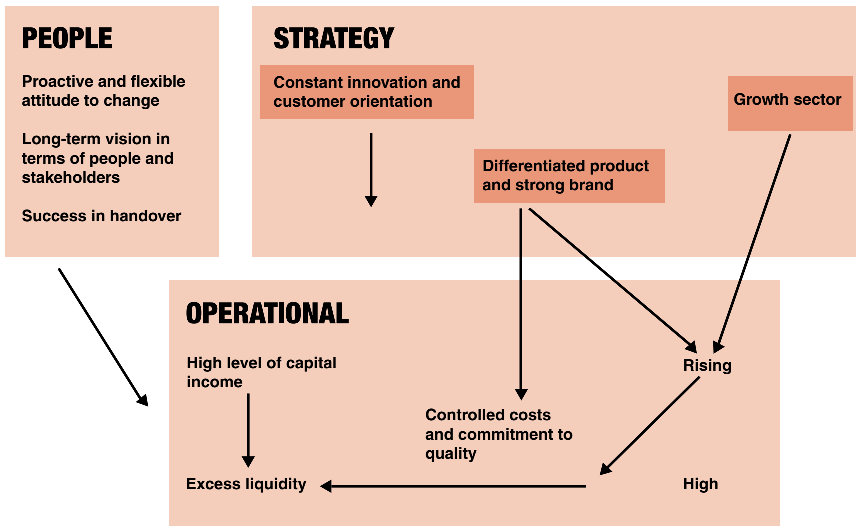
In another study, this time on American centennials, TenHaken and Cohen[6] identified several common factors among these companies:

- A strategy of excellence focused towards a particular product or market niche.
-Seeing people as their most important asset. As a result, higher than average salaries are key, as are loyalty and long-term commitment.
- Prioritising quality of service to maintain the loyalty of existing customers. For this reason, they are able to continue to offer products which offer low returns but which are highly valued by their traditional customers.

5 De Geus, A. (2002): The Living Company: Habits for Survival in a Turbulent Business Environment, Harvard Business Press Books, Boston.

6 TenHaken, V. and Cohen, E. (2007): Survival Behaviors Of 100-Year-Old West Michigan Retail And Service Companies, Journal of Business & Economics Research, August, Volume 5, No. 8.

Figure 2. Distinguishing features of centenary companies



- The existence of common values related to ethics, respect for the client and any other interested party regardless of their importance.

Stadler[7] analyzed 40 European centennial companies that were on the 2003 Fortune 500 list. He isolated the nine companies which had been much more profitable than the average over a fifty year period and concluded that there were four distinguishing characteristics which explained their superior performance:

- Increased investment in R&D while continuing to focus more on the exploitation of existing innovations rather than new innovations.
- Diversification. Although in the short term it is highly profitable to focus on a single line of business, in the long-term diversification via several businesses and various geographical areas is key to reducing the risk presented by an excessive concentration on a particular line of business or geographical area.
- The ability to learn in order not to repeat mistakes.
- Prudence when making changes. Such companies only make radical changes at very specific moments in their history.

Distinguishing characteristics of Catalan centennial companies

By conducting case-studies, similar to those carried out by Porras and Collins[8] with American companies, my team examined 28 Catalan centennial companies during 2012 and 2013 and found that there are certain traits that predominate (see *Figure 2*):

The people. These are companies that have managed to be proactive over many years. This has enabled them to respond flexibly to the great changes that have arisen. The long-term vision of business has encouraged them to adopt conservative financial strategies, respect their social and environmental surroundings, and have a commitment to their employees, with salaries above the average. The promotion of ethical standards is another important

7 Stadler, C. (2007). The Four Principles of Enduring Success, Harvard Business Review, July-August.

8 Porras, J. and Collins, J. (1994): Built to Last: Successful Habits of Visionary Companies, HarperCollins, New York.

characteristic. All these factors have enabled them to overcome the difficult years of economic crises. In addition, their leaders have taken seriously the process of handing over the company and have been successful in passing on the business over several generations. According to Anzizu[9] the correct management of succession requires the following steps:

- That the person with ultimate responsibility for the company is aware of the problem and takes steps to address it.
- That they think about the type of company they want in the future.
- That they consider the ideal profile of the candidate to succeed as head.
- That they determine whether a candidate with such a profile exists within the company. If this is not the case, they look outside.
- When they have selected a person they design a training plan to perfect their profile.
- They draw up a timetable as to when certain responsibilities are handed over to the candidate.
- If all the previous steps have been successful it is time to hand over responsibility to the new leader.

Strategy. The second set of elements are related to the company's strategy. They have opted for growth sectors and when the industry has entered a period of decline they have been quick to move to other business sectors. The proactive attitude of their leaders has encouraged constant innovation, a constant policy of strengthening the brand and a constant commitment to their customers. This explains why they have managed to increase their loyalty and maintain differentiated products over many years. In this section it is also noteworthy that these firms choose the right time to purchase and sell properties and businesses. Thus, they tend to sell in the years immediately preceding the bursting of a bubble and buy a few years following the collapse. In this way they buy low and sell high.

Operational. Finally, there are issues that have to do with how the business operates. The long-term vision explains why such companies tend to issue few dividends, especially in the early years of the company, this combined with a low level of debt means these are often highly capitalized companies. The long-term vision also adds to their passion for quality. Another key is tight control over costs by avoiding unnecessary expenditure. This all ensures increasing revenues and profits over the years.

Conclusions

From the above it follows that there are a number of traits that distinguish successful companies and centennial companies in particular that have to do with people, their strategies and how they operate. It is also important to remember that success is fleeting and, therefore, the fact that a company has existed for centuries is no guarantee that it will last forever. These factors are even more relevant in the current economic climate where the survival of many companies is at stake.

9 Anzizu, J.Mª (2009): *Dirigir empresas sostenibles* (Managing Sustainable Businesses), Gestión 2000, Barcelona.

*Oriol Amat

(Barcelona, 1957) holds a PhD in Economics from *Universitat Autònoma de Barcelona* and a Degree in Business Administration and an MBA from ESADE. Currently, he is director of the CNMV (Spanish Stock Exchange Commission) and professor of Financial Economics and Accounting at the *Universitat Pompeu Fabra*. He is president of the Register of Accountants and the Catalan Association of Accounting and Management.