Return of the dinosaurs

They're big, they're old and they're out of fashion – but don't write off the long-established corporate giants, say **Dominic Houlder**, **Nandu Nandkishore** and **Sayan Sarkar**

From Exxon to Tata, the last two decades have seen the largest and oldest corporations in the world face a constant stream of criticism and questioning. As bright, high-tech upstarts such as Google and Amazon have seized the day, the greats of yesteryear have come to seem behemoths, out of sync with the times. Their sprawling empires seem to make less and less commercial sense; sitting targets for the next disruptive innovator to attack.

To this litany may be added questions about the governance standards of the ageing giants – witness the travails of Tata last year – not to mention their perceived unattractiveness as places to work. Why would the most talented people in the world beat a path to a corporate mausoleum when they could be heading to the Valley to work at a place with unlimited food and table football rather than a marble bust of the founder in the atrium?

In the current environment, the fate of the corporate dinosaurs appears inevitable: they are doomed to extinction. Measures of uncertainty are at an all-time high. In 11 months in 2016, the Global Economic Policy Uncertainty Index rose by 149% and reached a two-decade high at the beginning of 2017. The forces opposing economic globalisation have been gathering around the banner of protectionism. Institutions are being dismantled rather than assembled.

So, should leaders of the corporate establishment quietly reach for a bottle of whisky and a revolver? No. They should pause and take stock. Looking around, they might actually conclude that the environment favours them. After years of questions about how they can survive, they may have some answers of their own.

In truth, the world of 2018 is potentially fertile commercial ground for large, established corporations. Old truths are being reasserted. In uncertain times, old and trusted assets are attractive.

Many large organisations have been able to reorient themselves successfully by finding new ways to exploit their core capabilities. Three examples from different industries will illustrate this.

Look first at Motorola. Back in 2010, the company's downward spiral in the wake of the advent of touchscreen-enabled »

smartphones led it to be split into two separate entities, one of which was acquired by Google. Under Google's umbrella, Motorola Mobility continued to work on engineering and R&D capabilities, which were well established and already deep. After another transfer of ownership (to Lenovo in 2014), Motorola Mobility saw a resurgence, especially in Asian markets, boosted by the success of its Moto G range geared primarily towards the entry-to-middle level of the market.

Second, take Fujifilm. The rapid decline of film photography at the turn of the century led to a decline in the company's fortunes. However, Fujifilm had deep expertise in imaging technology, which it exploited to metamorphose into an "imaging and information technology" company. On the back of 54,000-plus patents, Fujifilm has today emerged as a global leader in healthcare imaging.

Finally, look at the example of India-based Satyam Computer Services. It suffered a significant blow to its operations in 2009 when its chairman was embroiled in a controversy involving the falsification of company accounts. A controlling stake in the faltering business was acquired by Tech Mahindra. Under new leadership the business has recovered, making the most of its proven ability to provide cost-effective solutions to US and UK-based clients.

Global ecosystems and business platforms require the skills and deep pockets that big companies can offer. Integration is back in fashion. According to the EY Global Capital Confidence Barometer, the proportion of managers expecting their organisation to go in active pursuit of M&A opportunities has been rising consistently since October 2014. Favourable market factors such as low interest rates and large cash reserves are likely to propel M&A.

Furthermore, the era of the buy-and-dismantle financial portfolio approach to diversification seems to be behind us. M&A is increasingly seen as central to the strategy of many corporations. Some 23% of respondent firms to the EY survey said that having a window into new technologies – in R&D as well as manufacturing – was the main strategic driver of pursuing M&A opportunities.

Highly innovative companies are often not the best at scaling up their activities or providing the administrative and logistical infrastructure required to grow.

And, with the political world in a state of constant flux, the corporate dinosaurs are often best placed to keep abreast of changes in the legislative and regulatory environment in which they will have to operate. They virtually invented corporate lobbying, after all.

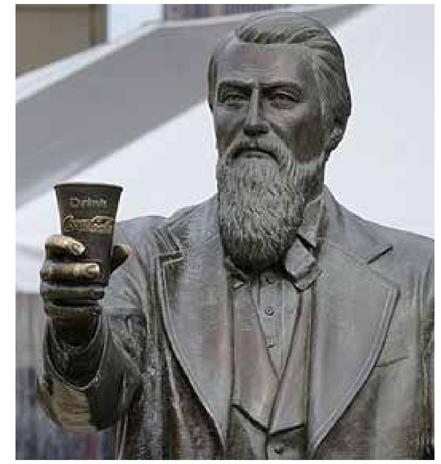
The new reality is that the demand for scale and scope actually favours large incumbents. They are better at creative construction than creative destruction. Figures from the McKinsey Global Institute in 2016 suggest that companies with over $1 billion in annual revenues make up almost 60% of total global revenues and 65% of market capitalisation.

If they can build on their strong cores, they have the opportunity to take advantage of emerging opportunities. In technology, for example, companies such as Oracle and SAP, which were once written off as relics of a bygone age, appear perfectly placed to exploit new openings. In the soft drinks market, Coca-Cola is using its reach – across the world with the exception of Cuba and North Korea – and the financial clout that comes with annual revenues of $42 billion to diversify while protecting its core brands.

In chemicals there has been a shake-out over recent decades. Just four of the top 20 of the world's largest chemical firms in 1996 are still on the list today. Among the survivors is Dow Chemical. Now 120 years old, it has spent the last few years investing heavily, reorganising to give greater attention to customer focus and ruthlessly changing its business portfolio. In summer 2017 it merged with DuPont (another great old name) to create the world's biggest chemical company.

> **'Global ecosystems and business platforms require the skills and deep pockets that big companies can offer'**

Big picture: Fujifilm survived through its long imaging technology history



Cultural resilience: Long-established corporates such as Nestlé (left; the site of Nestlé's first factory transformed into an interactive exhibition space), Atlas Copco (below) and Coca-Cola (founded by Asa Briggs Candler; right) owe their longevity to a true sense of purpose

The biggest plus point for the corporate giants is that they have been playing the game for a long time. They have huge reserves of history, experience and learning to draw on. Age brings a certain resilience and is often accompanied by a pile of cash on hand and ready to invest. They have weathered storms and downturns. They know what it is like to slip in and out of fashion. In their long histories they have learned how to succeed in dangerous times and polarised worlds. Companies such as Ford and Nestlé have survived world wars, oil shocks, financial crises and the ups and downs of economic roller coasters. They have run through the options of how to respond to different scenarios and potential crises to prepare for the future.

Nestlé is now more than one and a half centuries old and boasts that classic mark of a company that makes it truly part of the international corporate establishment: a museum dedicated to its own development. The company exhibits the apparently paradoxical and contradictory characteristics of many established corporate giants. It changes its product ranges quickly while still taking a long view. It controls costs vigorously while also investing heavily.

A similar appetite for reinvention can be seen in the Swedish engineering company Atlas Copco. It has been around since 1873 and began life building railways. Now it makes compressors, power tools, air treatment systems and mining equipment, with operations in more than 90 countries.

Conventional wisdom suggests that corporate life expectancy is shortening. Researchers often point out that very few companies that were listed on the New York Stock Exchange 100 years ago still exist today. GE is usually cited as the glorious exception.

However, this is only part of the story. Certainly, there is a high level of churn. But the companies that are more likely to vanish are actually the younger ones. Those that are already long-lived tend to go on living.

On one hand, the lifespan of the average US corporation has plummeted from about 60 years in 1970 to about 35 years in 2010. But across industries it is the five-year

TINKER IMAGINEERS, ALAMY, SHUTTERSTOCK

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mortality rate that has increased the most dramatically. Over the 40-year period from 1970 to 2010 this went from 9% to 38% in IT and from 4% to 27% in finance.

This suggests that sustainable competitive advantage is actually a reality. The improvement in margins across large US corporations in the wake of the 2008 financial crisis suggests that competitive advantage can endure the roughest of rides. US corporate profitability is hovering around its highest point since 2000, having nearly doubled since the first quarter of 2009.

Key to this corporate durability is what might be called cultural resilience. This is a product of the values that are honed in demanding times. Think how the experiences of Nestlé, Unilever and Ford in World War Two helped shape them. As researchers from Tom Peters and Robert Waterman (*In Search of Excellence*) to Jim Collins and Jerry Porras (*Built to Last*) have consistently found, the long-lived tend to have a clear sense of purpose. They are not mere process-oriented bureaucracies but are led by principles, values and purpose. Mars is a classic example.

Being purpose-led tends to encourage a longer-term view of business. Critics suggest that this equates to a stultifying lack of agility. Well, maybe. But research by McKinsey & Co looked at 600 firms and found that the 27% with a longer-term perspective performed better than their counterparts who took a more short-term view. McKinsey calculated that the companies with a longer-term view increased their profits by an average of 36% between 2001 and 2014.

Large, long-established corporations are often portrayed as managerial leviathans, as dinosaurs. The ones that survive and are likely to thrive in the future have professional management at their core. But there is more to them than that. Their sense of purpose, their ability to grasp the true nature of the world around them and to provide hope, are central to their success. Leadership is at the heart of their cultural resilience. This provides them with a sense of identity and direction.