

A philosophy of permanence

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According to futurist Frank Feather, who coined the phrase “think globally, act locally,” worldwide by the year 2010 there could be 100 enterprises the size of mega corporations, one million niche companies and one billion family-run web-based businesses. Feather sees very few mid-to-large sized businesses surviving. Where Feather’s prediction of 2010 is right or wrong, the trends are certainly there.

How many entities in businesses today will survive until 2010? Survival relates directly to how well the entrepreneurs, business owners, executives and managers associated with these entities can build sustainable advantage into their strategy.

Enterprises that attain sustainable advantage have acquired a beneficial position they can maintain or enhance. Developing sustainable advantage means transforming a business into an institution that can survive over time.

Sustainable advantage: sustainable advantage is a stable, successful business position an enterprise can maintain or enhance. Sustainable advantage implies a beneficial position in which time is a factor—the advantage continues over time.

Enterprise: an enterprise is a specific business entity, such as a business, company, or corporation. (Note: the word corporation has legal meaning – a legal entity separate from an individual person; a business can be unincorporated (sole proprietorship) or incorporated; a company may or may not have legal definition according to jurisdictional law – the term “company” can be used generically to mean an incorporated business, or some other type of legal entity, such as a partnership or a limited liability company, which may have less powers than a corporation.)

Very large enterprises become institutionalized, meaning well-established. Certainly the term applies to “financial institutions,” such as commercial banks, investment banks, and insurance companies. Small businesses can be institutionalized also. The Artichoke public house, near Plaxtol, Kent, England has been established since at least the fifteenth century – it is a local institution.

But the term can also apply to other industries, such as consumer products, pharmaceuticals, manufacturing, oil and gas, and health care. One might not necessarily think of such entities as Colgate-Palmolive, Procter and Gamble, Johnson and Johnson, IBM, General Motors, Exxon-Mobil, and Kaiser Permanente as institutions. However, these companies have been around for a long time, and are well established in our society. (Note: Kaiser Permanente is a not-for-profit corporation.) Even younger companies, such as CNN and Microsoft have become woven in to the fabric of our society, and have, in effect become institutionalized.

A thriving institution causes the economies of the surrounding communities to grow or stabilize, assuming that political conditions permit. When they get into trouble, then the surrounding communities can suffer from unemployment and reduced spending.

Institution: an institution (in the private sector) is a well established enterprise that consists of strategic business units and subsidiary companies, organizational units, such as divisions and departments, teams, and groups of individual employees. Sustainable institutions might not always have the best products or services, but their market share supports them. For example, Burroughs Corporation (now UNISYS) and Apple were once both hailed by some as having products technologically superior to IBM, but IBM survived because of its large market share.

Products and services can also become institutionalized over time if society relies upon them on an ongoing basis – we use them all the time, everyday. As the products and services become institutionalized, the companies that market, manufacture, and distribute them become institutionalized also.

Institutionalizing a product: a company institutionalizes a product when it builds a brand that stands the test of time, i.e., becomes well established. This is especially true when the brand becomes a household name on a global basis. Coca-cola and Kleenex are two examples. Often a brand survives far beyond the initial product. The American Express Company began by using horses for deliveries, but this company and its brand survived long after stagecoaches were

retired from operation. The IBM Corporation stopped making time clocks a long time ago, but the company and its brand are very powerful today.

It may be scary for an entrepreneur to think of his business or product or services as becoming institutionalized over time. However, such a result is a major achievement, because with institutionalization comes permanence – the business or product or service becomes a permanent fixture in our society, assuming that something dramatic does not go wrong. Either the founding entrepreneur adapts to become an executive of a major corporation or assumes a role below the top level of leadership, or moves on to the next innovative idea.

Hence success in entrepreneurship could be defined when innovative ideas become institutionalized, and maybe when entrepreneurs become executives.

Such institutions provide the base around which smaller businesses can develop to collectively form an economy of a community. When combined with service providers such as public transportation, health care and financial institutions, communities develop which eventually become big cities. Academic institutions play a double role in first providing research capabilities for innovative ideas, and second in providing education for future entrants into the resulting industries.

If the purpose of the residents in such communities is improved quality of life, then they will benefit because a variety of employment opportunities will exist. In addition, the supporting infrastructure for the environment — including health, housing, transportation, utilities, education, entertainment and recreation — will be strong.

Most major cities have three clusters of business communities:

- Downtown – the business and financial district, housing the headquarters of larger corporations, financial institutions, and professional services firms, such as accounting, advertising and public relations, attorneys, and management consultants.
- Campuses – the office parks for service-related activities and large manufacturing and distribution facilities in suburban areas, where more space is readily available at lower cost, and large hospitals.
- Street – automotive, retail, food service, light manufacturing businesses and transportation, and dental and medical practices that line the streets, within and between the downtown area and the campuses – these businesses will account for at least 80 per cent of the jobs in most cities, but are dependent upon the institutions for survival.

There is a very strong relationship between cities and the institutions within them, for example:

Atlanta – CNN, Coca-Cola, Delta Airlines

Cincinnati – Procter and Gamble

Detroit – Chrysler, Ford, General Motors

New Brunswick (New Jersey) – Johnson and Johnson

New York – Colgate Palmolive

If such institutions run into trouble and downsize, then the government will step-in with economic incentives to keep the current institutions a going concern, or attract new businesses.

All institutions began as small businesses with a single or few products and services. The founding entrepreneurs have a vision and a passion to promote their product (s) and service(s). Usually, all small businesses start in a single local community. The ones that remain in the single community are usually “life-style” businesses, such as retail stores, food service, or light manufacturing, and are owned by one or a few families as a primary source of income.

The ones that grow into institutions have an “upwardly mobile” mentality in their leaders – a commitment to grow beyond their local communities and extend their reach into regional, national and even foreign markets. This process is achieved usually through a process of duplication, where the same products and services are introduced into different geographic markets. The more basic the product and service and the greater the need by the consumer, the easier it is to introduce. Thus such businesses can build scale economically and efficiently.

For example, Coca-Cola is a truly global brand.

Advances in telecommunications and transportation have enabled many institutions to not only expand in foreign markets doing the same business as in the home domestic market, but to move raw materials and finished goods between markets (internationally), thus creating even better economic and efficiency scale benefits when there are cost and price differences between markets. Such institutions are truly global because they have multinational businesses in domestic and foreign markets, and move materials and finished products internationally.

Before entering a foreign market, a company may first seek a licensing agreement, or some other strategic alliance with a local company in the foreign market. For example, Cadburys, a British confectionary manufacturing, used Hershey to manufacture its products under license in the United States.

So, an upwardly mobile business can move from local to global in its markets. However, once it has achieved a global mindset, it can move its resources internationally to optimize its performance.

An example is the Ford Motor Company, which makes essentially similar cars in different markets for multiple markets, but the components for which can be sourced in even different markets.

Overtime, thriving institutions will expand, and will often consolidate with each other over international borders into mega corporations for reasons related to economies of scale, buying power, and of course, the egos of the surviving executives. The more basic or commoditized the product and service, or the greater the need, the more likely global consolidation within an industry is likely to occur. Consolidation can also occur in those industries that are heavily capital intensive.

Such consolidations have occurred in the banking industry; for example, the Hongkong and Shanghai Banking Corporation is truly the world's local bank, and in the oil and gas industry; for example BP-Amoco. In both cases, duplication occurs through branches and gas stations offering basic commodities of banking services and gasoline.

So a mega corporation is a global provider of commodity products and services surviving through huge economies of scale. Feather says that by 2010 there will be about 100 of them. All other businesses will have to offer "value-added" services in order to survive.

<p>Mega corporation: a mega corporation is a global provider of (usually commodity) products and services that survives through huge economies of scale.</p>

Large institutions may have an appearance of permanence, but in order to survive permanence requires a philosophy. Consumer needs change over time, and emerging technologies can make existing products and services obsolete. The more basic the product and service to human need, the more likely it is to survive, although as attitudes and technologies change, the ingredients and manufacturing methods may change. For example, Procter and Gamble and Colgate Palmolive have been manufacturing consumer products, such as detergents, soaps, shampoos, and toothpaste, for over 100 years. But attitudes towards the environment and safety, and the manufacturing processes have changed the composition and packaging of their basic brands.

Thus the same entrepreneurial skills of innovation, adaptation, enhancement and maintenance of products and services and processes are required in a large institution as they are in a start-up, if it is to survive. If it can't innovate internally, which is sometimes culturally impossible, it must acquire innovation from outside. IBM makes a great example. One the one hand, it has been able to able to innovate internally from significant investments in research and development, but on the other hand it continues to acquire products and services and technologies from the outside, either through acquisition, or through strategic alliances.

Therefore the top management in a large institution must have an entrepreneurial mindset, even if it is not present in the layers of management beneath them, and they have to be prepared for change.

In fact, in business, change is constant and the only certainty is uncertainty. There will always be wars and natural disasters, and there will always be progress in knowledge, skills and methods – therefore, being able to adapt to change is

requirement. The less responsive a business of any size is to change, the more likely it is to experience crisis, especially when a competitor has an advantage.

Sometimes it takes “a burning platform” for a company to respond to change, when the pain (or fear of pain) has become so great that it simply must do something in order to survive.

So executives in institutions must have entrepreneurial skills in order for their institutions to survive. If they don't survive in their institutions, they will need them anyway, because according to Feather, all other businesses will have to be “value-added” in order to survive. He says that there will be about one million niche-based companies, essentially providing value-added products and services where there are gaps in the offerings from the mega corporations. He also says that there will be about one billion family-run web-based businesses. He uses the term “webpreneurial” to describe the culture of these businesses.

So if Feather is correct, there will be less and less corporate jobs, and more of a need for entrepreneurial skills to compete in a webpreneurial world.

By creating Hewlett-Packard, Bill Hewlett and Dave Packard established a business based on principles of staying together without knowing what products and services the company would offer. These principles included:

- Management by walking around: walking around facilities and meeting with employees.
- Open-door policy: being reasonably accessible to those who need to see them.
- Positive expectations: recognizing that everyone in an organization wants to do a good job
- Management by objectives: communicating overall objectives and setting goals that give employees the flexibility to achieve results in ways that are best for them within expectations.

In the development of management science, this approach was important step as America was industrializing, because Hewlett and Packard placed more emphasis on principles than products. Over the years, as management techniques have developed, systems of beliefs, values statements, and guiding principles are becoming more important in the management processes of a company. Lack of values, or more importantly, lack of adherence to values can certainly bring a company down.

To build sustainable advantage it is necessary to employ the “soft” management skills (people-oriented) as well as the “hard” management skills (process-oriented.) This is because all institutions are made up of individual people ultimately serving individual people, whether they are representing themselves or a third-party. In effect, institutions (of any size) are made up of individuals serving individuals or institutions made up of individuals.

When an employee of a corporation makes a decision, how much weight is applied based upon personal preference versus what's best for the institution and its constituent employees, customers, suppliers, and investors collectively.

A successful entrepreneur knows that their products and services must be fitted to the needs and wants of the customers, not necessarily their own.

Decisions related to sustainable advantage involve understanding how individuals behave (and hence how institutions and communities behave) in local markets around the world. For example:

- Are the buying habits of the Chinese the same as Europeans, and do those habits vary throughout China?
- Are the attitudes towards productivity the same between Mexico and Colombia, Germany and Japan, etc.?

To build sustainable advantage requires knowledge and skills in six academic disciplines:

- Psychology – understanding human behavior.
- Philosophy – understanding makes actions right or wrong, evaluating arguments and applying logical principles.
- Politics – understanding the process by which groups make decisions (the more institutionalized a business becomes, the more like government it becomes.)
- Economics – understanding the production, distribution and consumption of goods and services through land, labor and capital.
- Statistics – understanding the collection, analysis, interpretation, and presentation of data so as to make informed decisions, sometimes based on the determination of probability of outcome.
- Science – understanding the research and development requirements for products and services.

Whereas a large corporation may have knowledge and skills in these disciplines, an entrepreneur and/or small business owner will have to rely upon intuition in most areas, which is what makes business so difficult – making calculated decisions based upon limited or no knowledge or information.

Successful entrepreneurs transform innovative ideas into products and services, and transform products and services into businesses. If they stay the course, and the business grows, they remain executives within them.

However, the entrepreneurial skills required to transform an innovative idea into a business are not sufficient to build sustainable advantage. Building sustainable advantage requires a blend of entrepreneurial, leadership and managerial skills that can transform a business into an institution, or institutionalize a product.

Making a business sustainable requires the leadership skill to develop an aspiration for the future. A future aspiration should be based on values and guiding principles, a sense of purpose (mission), a vision for what the business can become, and the consequential change in the marketplace. It is this aspiration that enables a business to evolve over time. An aspiration should be able to withstand changes in economic, environmental, political, regulatory, social and technological conditions, although the business itself may have to adapt to change or from change in order to survive.

Making a business sustainable requires the leadership skill to be inspirational – meaning the ability to attract and retain the necessary constituencies such as employees, customers, suppliers and investors. Overtime, these constituencies have stakes in the business such as careers for employees, the need for products and services for customers, sources of business for suppliers, and returns on investment for investors.

Along side the entrepreneurial and leadership skills, are managerial skills focused on the execution of processes by people to deliver products and services, in other words to get results. Planning and getting organized, executing, anticipation, problem-solving, analyzing results, and adjusting schedules, costs, and quality are essential ingredients of managerial skills.

Entrepreneurial, leadership and managerial skills are not limited to management (meaning boards of directors, officers, and the front-line managers.) Everybody in business needs to be able to innovate, negotiate and get results. For example, the cashier at Walgreens has the opportunity to cross-sell additional products and services to customers, based upon their needs. If there is an emergency in the store, they may have to think quickly, and then lead others to safety, while taking all necessary precautions.

Hence building sustainable advantage means establishing a philosophy of permanence. Whereas external conditions may change, and internal adjustments have to be made, or new products and services have to be introduced or withdrawn, and management teams turnover, the institution itself continues on. If institutions such as major banks or manufacturers stumble, and jobs are at stake, or investors' capital is at extreme risk, the community-at-large becomes nervous. For example, when Chrysler stumbled, the Federal government stepped in.

Aspiration determines fate. To quote Earl Nightingale, “you become what you think.” A small business with a big aspiration is more likely to grow than a small business with a small aspiration. That’s what separated Starbucks from the local coffee shop. But as aspiration (sometimes called an entrepreneur’s dream) may not be achievable in the short-term. It may require a series of visions in stages to reach the ultimate aspiration. In fact, the aspiration may not be achievable at all from the point of departure. Because, high order effects kick in later (situations or opportunities that could not be recognized at the point of departure) the point of arrival may be somewhat different from what was envisioned at the beginning. But a point of arrival is only with respect to achievement of a vision within the context of an aspiration, because with a philosophy of permanence, there is no ultimate point arrival. There are only intermediate points, because conditions change overtime and no business can stand still. Hence, overtime, aspirations will change.

So an upward mobile small business will have a “big” aspiration; whereas a “lifestyle” business will be exactly that – a business to support a lifestyle – unless the lifestyle changes. There is more inherent risk in an upwardly mobile business than a lifestyle business, because in order to grow, the business has to offer new products and services that are based upon new technologies, or existing products and services based upon new technologies, or different methods of delivery.

An upwardly mobile business cannot be categorized by its revenues or number of employees at a certain point in time, since these numbers may be low.

Most upwardly mobile businesses are short-lived, either failing or being acquired by a competitor or by an institution that has difficulty innovating itself. Very few ever become institutions in their own right. Lifestyle businesses can survive for years, if their market is big enough, or if they are well-managed – in such cases, they become institutionalized.

Big cities are dependent upon both the large and small institutions – it’s the big ones that drive the overall economy, but the small ones that provide most of the jobs. One large institution that provides thousands of jobs may be surrounded by thousands of small businesses that provide tens of thousands of jobs. If the big institution slips, then the whole community may be at stake. For example, changes in the steel industry had a dramatic impact on industrial cities. Governments, academic institutions and businesses have to work together to provide future solutions when old industries fail.

As a business grows from small to “mid-sized” to large, the challenges facing its management change. The bigger the entity, the more complicated the issues related to leading people (and managing the processes that people follow) and markets. Whereas entrepreneurial skills are always required, the leadership skills must include the ability to motivate others (self-motivation is always a requirement) and the ability to negotiate with or on behalf of the constituencies. Good negotiating skills require the ability to see the other person’s point of view, so as to create a “win/win” situation, and the ability to communicate so as to inform, convince and persuade effectively.

Aspiration: A long-term vision, an aspiration drives a major result—such as institutionalization—and should be based on principles, purpose and an awareness of practical conditions such as resource availability and trends in the marketplace.

Philosophy of permanence: Part of the mindset that a business will become an institution providing sustainable value over time. A future aspiration, business performance and the drive toward sustainable advantage all increase the likelihood of permanence.

In the future, the mega corporation will be global – therefore, either large domestic institutions in different countries will merge (such as BP-Amoco) or institutions will become global through organic growth, merger or acquisition.

The internationalization of business is a European concept. The British, Dutch, French, Portuguese and Spanish established colonies, and forged trade between the mother country, the colonies, and foreign nations. Italian merchants from Lombardy came to England to finance international trade, and sat on benches (bancas.) Banking institutions emerged on what became Lombard Street. Edward Lloyd’s coffee house on Lombard Street, from which the insurance institution known as Lloyd’s of London grew, because merchants and shipowners met there to determine how to compensation for

losses at sea should be treated. Coffee itself is the second largest commoditized business in the world and is truly global. Banking and insurance institutions were essential components of international trade and finance.

Internationalization: the exchange of products and services between nations.

Multinationalization: the operation of similar businesses in many foreign countries by a company domiciled in one.

Globalization: the combination of internationalization and multinationalization covering a significant portion of the world.

The multinationalization of business is an outgrowth of internationalization – establishing local businesses in the colonies – hence, it was a European concept. However, it became an American concept, as industrialization in the United States, with improved efficiency and economy of scale enabled American businesses to open overseas, especially after the Second World War. The methods used to enter foreign markets differed – in some cases, de novo (starting from scratch), in other cases through merger or acquisition, and in some cases through licensing.

The concept of franchising was also developed in the United States, enabling a franchisor to license a business concept to a franchisee who puts their own capital at risk. Franchising, an alternative method of raising capital to equity to expand a business concept, enabled products and services to rapidly become widely available, not only across the United States, but around the world. Most fast food chains and hotel systems involve some form of licensing or franchising.

The globalization of business is an inherently American concept. Americans globalized business through their ability to duplicate trainable, repeatable, predictable and measurable processes that form the basis of multinational corporate and franchised systems of business.

The American's need for oil and love of technology have had a major impact on globalization. The United States imports oil to meet its energy needs. The size of the country has required the development of (intranational) transportation systems employing aircraft and automobiles which can be also exported, or manufactured elsewhere. Improved methods of transportation link nations that otherwise would have difficulty in doing business together. Technology has significantly impacted business on a global basis:

- Information technology — transaction processing, availability of management and executive information, decision support, and business intelligence systems have eliminated some management and clerical jobs, but they have created knowledge-worker jobs and improved access to information for decision-making.
- Process technology — technologies such as CAD/CAM, computer numerical control (CNC) and robotics have eliminated both skilled and unskilled labor jobs.
- Telecommunications — the world seems to have become a smaller place through the ability to send data and information around the world instantaneously, linking communities together electronically and psychologically – data from multinational operations can be fed into global transaction processing and management information systems, and designs for products can be developed electronically in one place, transmitted electronically to another for manufacture electronically, with the entire process being controlled electronically.

In developed nations such as the United States and Western Europe, the outsourcing of utility functions and processes to providers who can offer cheaper products and services through economies of scale has become commonplace. Globalization cannot exist without effective transportation and telecommunication, which in turn has made outsourcing feasible to any worldwide location where a provider may be located, if economically attractive.

Outsourcing: increasingly popular today, outsourcing involves retaining third party organizations to manage business processes or functions normally handled within a company.

In sourcing: insourcing refers to handling business processes within a company.

One consequence of outsourcing is eliminating jobs in one community in favor of job creation in another. This is causing the economies of different countries to become more interdependent.

Unfortunately, the local job reduction that inevitably occurs with increased use of technology and outsourcing impacts the quality of life in any community. When jobs are eliminated that cannot be replaced, the entire community suffers, compounded by a downward-spiraling multiplier effect. If an institution in the community lays off part or its entire workforce, then the supporting retail and service businesses feel the effect. To recover, it is often necessary for governments to step-in with incentives to encourage new industries to replace old. Sometimes, the industries shift from product-oriented to service-oriented. If the incentives are right, especially if academic institutions are involved, new technological industries can emerge in “older” communities, for example, biotechnology and nanotechnology. So these newer industries can create new jobs for “knowledge workers” who require different skills from traditional industries – hence significant training is required.

Economies-in-transition such as China and developing economies like India are the hosts of many outsourcing initiatives. These countries strive to build infrastructures that can support the huge increase in economic activity that results from obtaining work from outside. As these countries’ local communities become more affluent, their demand for products/services will increase, thus strengthening global markets.

Long-term, a common business approach will be to sell products and services in global markets that are tailored to local needs, while sourcing raw materials and services from local markets that can produce and deliver them the most effectively. To maintain a competitive advantage, which a key to sustainable advantage, that business approach will require “insourcing” value-added functions and processes that make a difference, and outsourcing the utility functions and processes to scale providers.

A scale provider is one that can produce products and deliver services and very low cost relative to competitors because of high volume. For example: First Data Resources, the world’s largest credit card processor can process transactions cheaper than anybody else because of their exceptionally high volume – their fixed cost is spread over a very large volume of transactions.

For example, a U.S.-based company located in Arizona could have the components for its products manufactured in China, assembled in Mexico, and sold through local distributors in markets all over the globe. This company could also conduct design, manufacturing and assembly in many countries around the world, all administered through a global virtual network that eliminates the need for the product to flow through the United States except for sale in the U.S. market.

The company of the future will follow a global virtual integrated model where transportation systems and telecommunications link discrete components of the business, whether insourced or outsourced.

Whereas businesses usually grow from a local to global model, the mindset then becomes global to local – meaning that all activities in local markets are evaluated against in the global context.

The niche companies that Feather refers to will include the “scale outsourcers”; the companies that can produce large quantities of components on a scale basis cost effectively. Their customers will be the mega corporations and other niche companies. The rest will be supreme marketers – they innovate products based upon perceived needs and market them, but they don’t manufacture the commodity components.

Hence building sustainable advantage does not mean being able to do it all – the vertically integrated company that makes everything belongs in the past. To build sustainable advantage over the long-term requires not only innovation in product ideas, but innovation in infrastructure design – knowing what to insource and what to outsource. This means that the make up of the infrastructure will change significantly over time.

The philosophy of permanence for the mega corporations will be linked to finding the right commodities for global markets and delivering them efficiently and economically. The philosophy of permanence for mid-size companies will be based either on adapting the marketing and manufacturing of value-added products as needs and wants change, or the manufacturing of scale components efficiently and economically.

In either case, it may be the values and guiding principles that are more relevant to the creation of an institution than the underlying products, than the products themselves. On the other hand, for the entrepreneur whose innovative idea results in a product that the world wants, institutionalization of the business and the product that it delivers is almost guaranteed.

For the billion family-run web-based businesses that Feather predicts, their survival will be based upon the permanence of their relationships, which means how well they deliver service beyond expectations.