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Critical Factors Enabling the Sustainable Survival of Firms

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***Abstract*: Identifying factors that impact the health of companies is an important research topic as corporations have a significant impact on global economic activity. Corporate survival statistics have nose-dived over the last 50 years with a significant count of companies no longer visible on global exchanges. Nurturing businesses that outlive the lifetimes of their founders or current leaderships as well those of their peers and create value on a long-term basis is a key tenet of sustainable survival. This topic presents a fascinating area for research, as an interplay of multiple factors enables a company to weather the storms that it encounters on its journey. The scope of the research is qualitative and restricted to identification of factors that support sustainable survival of firms. The study may provide managers of established firms as well as founders with input on crafting action plans and strategies to improve the lifespans of their companies.**

***Keywords*: Corporate longevity, sustainable survival of firms, organisational governance, organisational resources and capabilities, organisational strategies and performance, external environment, stakeholder value, ecosystem, company image, customer loyalty.**

1. Introduction

As we witness the proliferation of start-ups that leverage technology to solve use cases across different domains, there is another trend that warrants equal attention. Separate studies based on the datasets of multiple countries reveal that there is a steady decline in the average age of a company, implying that corporate longevity is under threat.

Firm survival statistics have nose-dived over the last 50 years with a significant count of companies that featured in the early years of Fortune 500 or FTSE100 but are no longer visible on exchanges across the globe. While all companies face cycles of stability and upheavals on their journeys, some fall by the wayside while others continue their forward march with necessary adaptations and transformations.

The definition of longevity also presents challenges, as it is entwined with an industry's nature and is relative to the context. Companies in the IT industry with high levels of technical obsolescence and lower capital requirements have shorter lifespans than banks or hotels that are built over a lifetime of trust (Davis, 2014). While some companies enjoy longer lifespans, as they operate in regulated environments or slow-growth industries (Gerstner, 2014), for companies that face disruptive and discontinuous changes, the focus is on sustainable survival.

Nurturing businesses that outlive the lifetimes of their founders or current leaderships as well those of their peers and create value on a long-term basis is a key tenet of sustainable survival. This topic presents a fascinating area of research as an interplay of multiple factors that enable a company to weather the storms that it encounters on its journey. This qualitative study seeks to identify the factors that support a company on its quest for sustainable survival and provide entrepreneurs and managers with available pathways for elongating the lifespans of their companies.

2. Literature Review

An extensive literature review has been undertaken to understand the perspectives of earlier studies as well as the inferences and gaps thereof.

While some papers have approached corporate longevity in the context of the survival of a company beyond the average lifespan, the papers perused as part of this literature review introduce some other approaches.

With listed companies being the key focus of many studies, actions taken from the perspective of listing on exchanges appear as a measure across multiple studies. A study on US-listed firms took the removal of a company from the Dow Jones Industrial Index as a surrogate measure of its inability to survive (Khan et al., 2019). A similar approach was adopted for a survival study of firms listed respectively on the Korean Stock Exchange, KOSDAQ and Australian Stock Exchange, wherein the delisting of the company from the respective exchange was taken as an indication of the end of corporate lifespan (Ahn, 2018; Cho & Lee, 2018; Panza et al., 2018). A different approach was adopted for a study of small and medium entreprises (SMEs) in Austria, wherein the bankruptcy of a firm was categorised as the event signifying corporate failure (Kucher et al., 2020). Corporate sustainable longevity (Ahmad et al., 2019), a related concept, addresses the factors that render a firm able to live longer than its peers.

While most studies have focused on listed firms that have public and institutional ownership, few covered in this analysis studied the impact of firms being family-held regarding longevity (Ahmad et al., 2021; Ahn, 2018; Lohde et al., 2018). While the impact of the founder and smooth succession

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planning were key enabling factors that emerged in family firms, other factors, such as firm size and performance, financial performance, life-cycle phase and strategic actions, were similar for most categories of firms.

Based on the perusal of substantial literature, a detailed analysis of four factors that can support sustainable survival is presented below:

i. Organisational governance,
ii. Organisational strategies and performance,
iii. Organisational resources and capabilities, and
iv. External environment.

Each factor plays a key role in defining the business model of any firm and this sets the the path(s) that it undertakes in pursuit of its corporate goals. Sources of competitive advantage for all firms have undergone a seismic shift with the advent of technology, and it can emanate from resources as well as activities that pertain to both demand and supply sides (Massa et al., 2017). The resources and activities can be drawn from both internal and external environment, and the case study of a firm in the Brazilian fashion industry revealed the preponderance of internal factors in implementing sustainable business practices (Ostermann et al., 2021).

Companies leverage resources and competences provided by individuals or groups, both internal and external, while creating and delivering products and services to customers. The network of these relationships with internal and external stakeholders like employees, customers, suppliers, creditors, civil society, government, etc are mutually beneficial and leads to creation of a circular value network which is imperative for the successful operation of any business (Freudenreich et al., 2020). While serving customers is the raison d'etre for any company, adoption of the stakeholder theory perspective enables a business model to create value for all stakeholders that includes economic, ecological, social and other positive outcomes (Upward & Jones, 2016; Kurucz et al., 2017; Schneider & Sachs, 2017).

While opinion is split on whether a firm should adopt its purpose as the primacy of shareholder interest over that of stakeholders, study of mid-sized and large Slovenian privatized firms reveal that they opted for the maximisation of stakeholder value as their corporate purpose (Stubelj et al., 2017). Adoption pattern of corporate governance practices by different firms across multiple countries reveal that the pattern is impacted by cultural norms, with the Anglo-American shareholder-oriented model having primacy in USA and UK, while Germany, France, Japan, China and African countries adopting corporate governance models that are congruent with their social institutions and cultural values (Ntongho, 2015).

A study of select Asian companies (Purbawangsa et al., 2020) reveals that corporate governance, through the presence of a supervisory framework with appropriate checks and balances enables a firm to meet its committed performance levels and thereby improve value. Along with apposite rules and policies, incorporation of the twin parameters of trust and ethics of care in the governance framework leads to the alignment of interest of all stakeholders with a positive impact on brand performance (Tuan,2014).

A firm has multiple resources, both tangible as well as intangible, along with capabilities at its disposal, and Customer Value Proposition is an unifying concept that enables a firm to communicate its ability to provide superior value to its customers by leveraging these resources (Payne et al., 2017). Organizational strategy formulation should ideally commence with the alignment of customer needs and company's perspective, followed by the development of competences and resources and then dovetailing the operational strategy with customer needs to create value with measurable goals (Rintamaki & Saarijarvi, 2021).

While the source of competitive advantage has traditionally been considered to emanate from the resources and capabilities possessed and developed by a firm, it is the rareness of the combination of these resources and capabilities that contribute to a firm's competitive advantage and consequently to performance (Baia et al., 2019).

3. Proposed Methodology

Four independent variables that support the sustainable survival of firms have been identified. Recent studies and articles were reviewed to identify the key findings. The problems, objectives and solutions proposed by the studies were mapped, and research gaps and potential areas for further research were identified.

Using the research framework highlighted above, the findings were analysed to identify areas that require further research to support firms in their desire to survive on a sustainable basis.

4. Research Problem and Questions

The research questions probed in this study relate to those that enable a firm to undertake actions that result in outcomes supporting its sustainable survival:

1. How can organisational governance be improved upon to enhance stakeholder value?
2. How can changes in the external environment be leveraged to build a vibrant business ecosystem?
3. How can organisational resources and capabilities be aligned to elevate the image of a firm?
4. How can organisational strategies and performance measures be designed and deployed to create customer loyalty?

5. Research Objectives

The research objectives explored in this study are as follows:

1. To identify factors that impact organisational governance that enables a firm to focus on enhancing stakeholder value;
2. To identify factors in the external environment that contribute to the creation of a vibrant business ecosystem;
3. To assess the repository of resources and capabilities that a firm should possess to positively influence the image of the company; and
4. To identify the organisational strategies and

performance measures that facilitate the acquirement and retention of customers by building on customer loyalty.

6. Research Framework

The research framework developed basis the systematic literature review and the subsequent understanding is presented below in Figure 1.

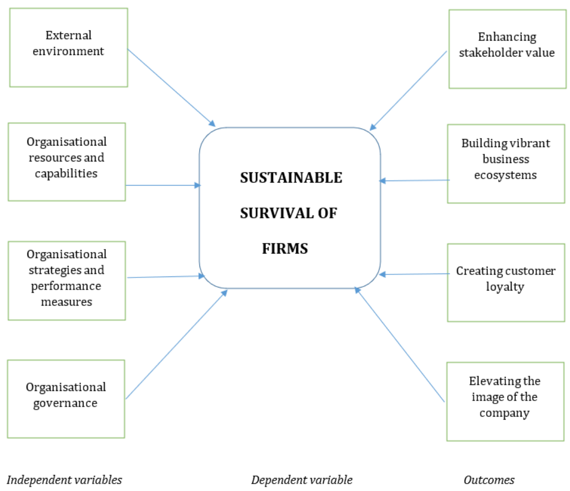

Fig. 1.

7. Discussion, Analysis and Outcomes

A. Organisational Governance

The starting point of any firm is the ownership pattern and resources it garnered to do its chosen business and the concomitant structure that has been designed to support it. This sets in motion the policies, processes, roles, responsibilities and decision-making hierarchies that are adopted for the company to function. This constitutes the governance framework and has an important bearing on its conduct and lifespan.

A thorough analysis of the extant literature reveals three factors that are critical for organisational governance:

a) Entrepreneurial and market orientation,
b) Policies and practices, and
c) Succession planning.

The available literature on longevity can be grouped into three categories: (i) micro, small and medium enterprises (MSMEs), including start-ups that are typically held and managed by the owner/manager; (ii) large publicly held and professionally managed companies and (iii) family owned and managed organisations that have stood the test of time across several generations. Given these differences, the organisational governance framework varies across these three categories and has implications for multiple dimensions.

MSMEs and start-ups grapple with a lack of organisational maturity during the early years as well as a lack of resources, and these shape its resilience on its journey. Entrepreneurial and market orientation are key attributes that need to be nurtured and possessed by MSMEs and start-ups to tide over the maelstroms that hit them in their initial years. Large public corporations rely on their well-established and documented policies and practices to craft their responses to opportunities and threats that they encounter. Any misstep on this front results in governance failures with adverse impacts on business. The presence of robust succession processes across generations for ownership and leadership positions in firms with family ownership is a key success factor for their longevity.

Outcomes:

Entrepreneurial and market orientation, policies, practices and succession planning working in harmony for better organisational governance and longevity lead to an increase in stakeholder value. Owners, investors, lenders, employees, customers and suppliers are the main stakeholders of a company, and good governance leads to beneficial outcomes for all. Whether it increases in market capitalisation, achieves a high credit rating with the timely repayment of obligations or has superior products or services at appropriate price points, good organisational governance serves the interests of all stakeholders and facilitates the sustainable survival of the firm.

Proposition 1: *Organisational governance, manifested through entrepreneurial and market orientation, policies, practices and succession planning, enables the sustainable survival of firms, which results in enhanced stakeholder value*.

B. External Environment

Every organisation has to contend with factors that are not within its control and have the power to disrupt its operations and performance. These external factors can emerge due to issues such as demographic shifts, global dynamics, geopolitics, economic upheavals, social changes, technological advancements, the intensity of competition, institutional framework and access to capital. An analysis of the literature reveals three factors that are critical in this context:

a) Competition,
b) Customer preferences, and
c) Regulation.

There can be multiple vectors of competition amongst players offering similar products or services – price, innovation, quality of service, availability, etc. An increase in competition creates a dent in profitability, and a firm has to expend more resources to retain and increase market share. Other than changes in competitors' strategies, another source of flux is the continuous changes in customer tastes and preferences. This change is inevitable for most businesses due to shifts in demographics and socio-economic changes in the customer base as well as the interplay of multiple forces in the external environment. Firms respond to these changes by realigning their product portfolio and using other restructuring strategies, and those that are unable to do so witness a decline in market share and profitability. Increasing regulatory oversight on multiple facets of business, such as finances, legalities, the environmental, quality, safety and cyber risks, requires firms to undertake apposite actions to ensure compliance with the evolving regulatory framework.

Outcomes:

A firm's efforts in mitigating challenges in its external environment that manifest through changes in a competitive framework, customer preferences and regulation are typically visible through the creation of a vibrant business ecosystem. Multiple players, such as customers, partners, distributors, vendors, subcontractors and consultants, comprise the ecosystem, and successful mitigation strategies result in these players working in tandem to support each other. This network of entities collaborates and cooperates in the creation and delivery of the product or service at an optimal price. A business ecosystem is a confluence of diverse capabilities and attains maturity over time; this is visible in firms with longer lifespans.

Proposition 2: *The mitigation of challenges seen in the external environment enables the sustainable survival of firms, which results in the creation of a vibrant business ecosystem.*

C. Organisational Resources and Capabilities

A firm seeks to harness its resources, comprise a dynamic repository of assets, knowledge and skills and use these effectively by leveraging its capabilities. The long-term success of a firm lies in its capability to identify the available resources and weave them together into implementable strategies that are both sustainable and flexible.

An analysis of the literature reveals three factors that are critical in this context:

a) Entrepreneurial and managerial skills,
b) Tangible resources, and
c) Intangible resources.

The navigational dexterity of leadership has become a prerequisite for organisational excellence as firms continuously adapt their business models to myriad changes in the external environment. Transforming the potential of organisational resources into reality is a key task for any entrepreneur or manager, and this becomes a key construct in firms being able to outlive their peers. The tangible resources at the disposal of a firm range from physical, financial and organisational to technological resources, while intangible resources include human capital, corporate brand, patents and reputation. The respective alignment of these resources in any firm creates a unique proposition, and leveraging these to create a sustainable advantage by the leadership team is the key to corporate survival.

Outcomes:

The admiration of longevity and superior performance leads to a beneficial impact on the image of a company. Multiple advantages accrue to the firm, as its positive image in society makes it easier for it to attract customers, talent, capital, partners and other resources. Therefore, the company is able to create a virtuous cycle whereby it is able to further prolong its lifespan and elevate its image in the eyes of all of its stakeholders.

Proposition 3: *The creation of a sustainable competitive advantage with the adroit use of tangible and intangible resources at the disposal of a firm by an accomplished leadership enables its sustainable survival, which results in the enhancement of the image of the company.*

D. Organisational Strategies and Performance Measures

A firm traverses the life cycle of developing a product – taking it to market, growing market share and achieving maturity and stability or decline – with time in each phase depending on its resources and strategies in the context of the opportunities and threats it faces. The design of the strategies is aligned with the phase of the life cycle as well as the objective the firm has set for itself. Growth, stability and renewal are strategies typically implemented by companies in their quest to add more markets or products to their portfolio, retain or gain market share and reinvent themselves due to changes in the external environment.

An analysis of the literature reveals three factors that are critical in this context:

a) Innovation,
b) Business strategies, and
c) Financial and non-financial metrics.

The current business environment is characterised by an extreme degree of disruptiveness, and firms need to demonstrate a high level of innovative capability to survive and succeed. Innovation can be across products, processes and business models, with the chosen strategy being disruptive or incremental, depending on the use-case that is to be solved. The choice is also dictated by its congruence with the strategy the company has adopted across the three buckets of differentiation, focus and cost leadership. Appropriate performance measures, comprising financial and non-financial metrics return on capital employed, the contribution of new products to revenue, the number of patents approved, or the proportion of employee strength trained in emerging technologies, must be formulated and monitored.

Outcomes:

A company's ability to ambidextrously pursue strategies that help it exploit its strengths and explore its future potential has a salubrious impact on its lifespan and is manifested through greater customer loyalty. Existing customers feel proud to use the products of the company across generations and take on the role of honorary brand ambassadors. Their positive endorsement attracts new customers, which provides a further fillip to the fortunes of the company.

Proposition 4: *The design and implementation of strategies focused on innovation with measurable results enable the sustainable survival of firms, which results in greater customer loyalty.*

8. Interrelationship Among the Four Variables

There is a symbiotic connection between the four variables of organisational governance – the external environment, organisational resources and capabilities, organisational strategies and performance measures – while the opportunities and threats in the external environment set the context for an entrepreneur or manager to evaluate and identify the offering in the context of the strengths that the firm possesses or wishes to develop. The governance framework depends on the internal construct of the firm as well as the nature of the business the firm has chosen to pursue. The owner or manager estimates the sufficiency of resources and capabilities at their disposal to meet the business needs and develops or acquires the relevant tangible and intangible resources. This is subsequently transformed into appropriate strategies that meet the needs of existing and prospective customers and create value for stakeholders in the long term.

9. Implications for Business Research

While the study is qualitative in nature, the increasing mortality of firms makes the study germane for industry practitioners, irrespective of the size or age of a firm. Founders of start-ups, owners of family-run businesses and managers of established companies may contextualise and implement the learnings and inferences in their own businesses.

10. Limitations and Scope for Future Research

The inferences of this study need to be buttressed with empirical research at a sectoral and cross-country level. The impact of a founder on designing the vision and fabric of an organisation remains an area for future research. A study on the extent of the stability that strong financials impart to a company is another area for further research. Organisational longevity involves multiple dimensions, and the field remains open for future research on the interplay of internal and external factors that support sustainable survival.

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