US public companies have increasingly shorter lifespans, research says

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At a time when more Americans are living longer, the companies where many people spend their working lives have increasingly shorter lifespans, according to research from Indiana University's Kelley School of Business.

A paper by two Kelley professors, forthcoming in the *Academy of Management Annals*, found that the odds of a company surviving more than five years has declined dramatically since the 1960s and that this trend also holds for firms lasting 10, 15 and 20 years.

Companies emerging as publicly listed firms in the 1960s had a 50-50 shot of making it to their 20-year anniversary. By the 1990s, that percentage fell to 20 percent. Similarly, such companies used to have an 80 percent chance of being around after 10 years, but those odds were down to 50 percent for firms established after 2000.

These findings are based on an empirical analysis of nearly 32,000 U.S. publicly listed companies between 1960 and 2015 by Rene Bakker, assistant professor of management and entrepreneurship, and Matthew Josefy, assistant professor of strategy and entrepreneurship.

The researchers believe that long-held views about the age of companies have changed as organizations have become increasingly temporary in nature. Research on firm age dates back to the mid-1960s, but little has been done since the early 1990s. Bakker and Josefy question whether firm age today is anything more than a number and suggest that it may no longer predict organizational success.

"We believe this trend reflects an important shift in our understanding of the very DNA of what constitutes an organization," the researchers wrote. "Short-lived, temporary organizations that rapidly accomplish a complex task and disband on its accomplishment are increasingly common across a broad range of industries."

In the previous century, many businesses were run with the expectation that they'd be taken over by the next generation of a family.

"The history of American businesses was centered around these family enterprises," Josefy said. "The whole reason of incorporating was so the organization would live longer than the founder, giving them a sense of immortality. Here's the irony: These large corporations aren't even going to live as long as the founder, much less get passed down to the next generation of owners."

Classic management theory suggests that firm age is positively associated with learning, reliability and legitimacy. But today it may have more negative connotations in certain contexts, such as the tech sector, which rewards novelty and youthfulness.

In their paper, Bakker and Josefy raise the question of whether the American corporation is becoming more disposable, reflecting the temporary nature of other aspects of our society. They suspect that the diminishing lifespan of U.S. companies is partly due to more active merger and acquisition activity in recent years. But they also attribute it to a culture that encourages start-ups.

"We live in an environment where starting and liquidating a business is quite easy," Bakker said. "Many young firms today seem destined to become 'organizational supernovas,' which burn brighter but die quicker."

Once a start-up reaches its desired objectives, it may be acquired or morph into another entity with new goals.

"While society is often concerned to see businesses fail, sometimes it may be better for a company to die to free up resources and allow people to go on and do something else, rather than persist with uncertainty and stagnation," Josefy said. "Apparent failure of one entity may actually be the precursor to success of another."

More information: "More Than Just a Number? The Conceptualization and Measurement of Firm Age in an Era of Temporary Organizations" *Academy of Management Annals*, 2018.

Provided by Indiana University