Checking Firms’ Life Spans Expected 30 Years Ago

Nobuo TAKAHASHI

Abstract: Thirty years ago, in 1987, a questionnaire that asked the question, “The average lifespan of a company is said to be 30 years. What do you think the probability is that your company will have survived after 30 years?” was sent as part of a white-collar survey of 11 large Japanese firms. Responses were received from 575 people, and the average “probability” was 72%. Thirty years later, in 2017, two companies that employed 127 of those 575 people did not survive. This makes a survival rate of 78%.

Keywords: life span, Japanese big business, bubble boom

Introduction

In Japan in the latter half of the 1980s, the “corporate lifespan 30 years” theory became well-known despite making people
uncomfortable, and among so-called salarymen working in Japanese businesses, there was an increased interest in the lifespans of companies. This started with a publication entitled *Kaisha no Jumyo* [literally, “Company Lifespans”] (Nikkei Business, 1984). The basis of the assertion in this text was a chart that ranked “Japan’s top 100 companies” by total assets for 10 approximately 10-year periods of 1896, 1911, 1919, 1929, 1936, 1940, 1955, 1966, 1972, and 1982.

If these rankings of the top 100 companies were unchanged over time, then it stands to reason that the total number of companies appearing in the rankings across all 10 time periods would not exceed 100. In actuality, a total of 413 companies appeared in the rankings. A simple calculation shows that because 413 companies made it into the top 100 across all 10 time periods, each company appears in the rankings $2.4 = (100 \times 10 / 413)$ times on average.

This calculation led to the birth of the famous “corporate lifespan 30 years” theory that “a successful company will on average be ranked among a group of excellent companies 2.5 times or, given periods of 10 years, for less than 30 years” (Nikkei Business, 1984, p. 9). In actuality, only 194 companies out of 413 were ranked in only one period; 73 were ranked in two; 54 were ranked in three. Overall, almost 80% of the companies, 321, disappeared from the rankings in three periods or less.

However, was this truly the case? Many salarymen at the time felt uncomfortable with this theory. Thirty years ago, in 1987, a questionnaire that asked the question, “The average lifespan of a company is said to be 30 years. What do you think the probability is that your company will have survived after 30 years?” was sent as part of a white-collar survey of 11 large Japanese firms. Responses were received from 575 people. The average “probability” given at that time was 72%. Thirty years later, what has happened to the companies to which those 575 people belonged?
Method and Results

This survey was conducted 30 years ago among employees of large Japanese corporations that participated in the “Academy of Management Development” of the Japan Productivity Center (JPC). The questionnaires were distributed on Wednesday, August 26, 1987 via a leaving method. Responses were gathered on Monday, September 7, 1987. The questionnaires were distributed to 690 people in 11 companies and 580 returned with responses, making a response rate of 84.1%.

The questionnaire included the following question.

Question: The average lifespan of a company is said to be 30 years. What do you think the probability is that your company will have survived after 30 years? Please respond with a percentage

| Table 1. “Probabilities” expected 30 years ago |
|-----------------------------------------------|
| Company | 0–49% | 50–59% | 60–69% | 70–79% | 80–89% | 90–99% | 100% |
|---------|-------|--------|--------|--------|--------|--------|------|
| A       | 2     | 4      | 1      | 3      | 2      | 4      | 7    | 23  | 78% |
| B       | 7     | 7      | 3      | 2      | 4      | 1      | 4    | 28  | 62% |
| C       | 0     | 5      | 2      | 14     | 12     | 9      | 18   | 60  | 85% |
| D       | 2     | 3      | 2      | 5      | 5      | 2      | 1    | 20  | 71% |
| E       | 11    | 24     | 5      | 19     | 18     | 13     | 17   | 107 | 73% |
| F       | 7     | 10     | 0      | 6      | 8      | 12     | 34   | 77  | 83% |
| G       | 11    | 19     | 6      | 12     | 16     | 4      | 2    | 70  | 65% |
| H       | 9     | 8      | 4      | 11     | 10     | 6      | 8    | 56  | 70% |
| I       | 9     | 13     | 2      | 4      | 2      | 2      | 4    | 36  | 59% |
| J       | 4     | 8      | 8      | 5      | 8      | 3      | 10   | 46  | 74% |
| K       | 18    | 11     | 2      | 8      | 5      | 4      | 4    | 52  | 57% |
| Total   | 80    | 112    | 35     | 89     | 90     | 60     | 109  | 575 | 72% |
between 0% and 100% (for example, if the probability of survival is
50%, then 50 out of 100 companies exactly like yours will have
survived after 30 years).

Table 1 shows the distribution of responses, with the average
“probability” of 72%. Naturally, the “probability” distribution differs
by company, with the average being highest in Company C at 85%
and the lowest in Company K at 57%.

What was the fate of these 11 companies 30 years later, in
September 2017? Of those 11 companies, only Company D and
Company E had worsened and had been merged into others,
meaning they did not survive. In other words, out of 575 people, a
total of 127 (20 in Company D and 107 in Company E) did not
survive. Accordingly, the “probability” of survival can be calculated
using the following formula:

\[
1 - \frac{(20 + 107)}{575} = 78%.
\]

Even among the 11 companies that, at the time of the survey 30
years ago, were already large, employees thought that there was a
greater than 70% probability that their companies would survive
after 30 years, which has now actually been confirmed 30 years later.

Discussion

The Japanese economy stumbled due to a strong yen following the
Plaza Accord of September 22, 1985. A month and a half after the
survey, on October 19, 1987, the global tumble in stocks that started
with the New York Stock Exchange—“Black
Monday”—occurred. According to indices, the Japanese economy
experienced what was termed a “bubble” in a 51-month period from
December 1986 to February 1991. The bubble was in its initial stages during the time of the survey, from August to September 1987, though many Japanese people did not begin to feel bullish about the economy until after 1988. The Nikkei Stock Average reached a still unbeaten historical peak of 38,915 yen on December 29, 1989. Land prices also peaked in 1991 and 1992.

Before the bubble economy, the 1980s saw Companies D and E both experiencing tremendous growth, although despite this, the “probabilities” given for the two companies in Table 1 averaged 71% and 73%, respectively, those are almost overall average “probability.” In retrospect, interviews with employees from both companies showed them confronting a sudden increase in workload and organization size that accompanied the rapid growth, as well as complaining about feelings of exhaustion and the dangers brought on by sudden growth. Both companies were directly impacted by the collapse of the bubble economy in the 1990s.

Company D in the survey is The Seibu Department Stores Limited. Established in 1940, this department store company played a central role in the 1980s in the Saison Group, Japan’s largest distribution conglomerate. Around 2002, the financial situation of the group worsened due to bad loans, and in 2003, it requested debt forgiveness and presented a plan for restructuring. In 2004, Saison Group consolidated under the Millennium Retailing, Inc. holding company, though in 2006, that was acquired by Seven & i Holdings Co., Ltd., with the corporate The Seibu Department Stores dissolving in 2009.

Company E is The Daiei, Inc. Founded in 1957, it was a nationwide chain of general merchandise stores and the flagship of the distribution revolution (Hayashi, 1962). The company also forayed into hotels, publishing, finance, professional baseball, and even university, as part of the diversification bandwagon, and at one time, had approximately 300 group companies. However, poor
performance in the latter half of the 1990s caused it to fall under the Act on Special Measures for Industrial Revitalization and Restoration, and it received the support of the Industrial Revitalization Corporation of Japan. As a result, while it avoided bankruptcy, in 2015, it became a wholly-owned subsidiary of Aeon Co., Ltd.

Conclusion

In actuality, as was noted by Takahashi (1995), the methods of estimation employed by Nikkei Business (1984) had many issues and significantly underestimated corporate lifespans. Shimizu’s (2001) simple corrections extended the average lifespan to 36.2 years. Moreover, when Shimizu (2002) estimated the lifespan of 1,273 listed firms in the first section of the Tokyo Stock Exchange, the average was over 100 years.

It is a fact that two companies in the survey did not survive after 30 years, despite being successful, just as Nikkei Business (1984) warned. However, even among companies that were already large at the time of the survey, employees granted a probability of survival after 30 years of on average more than 70%, which has been confirmed after 30 years. At the time of the survey, no one could have foreseen the bubble economy and its collapse, nor the lost two decades afterward. Despite this, the intuition of these employees at the time regarding the “corporate lifespan 30 years” theory, though perhaps discomforting, was accurate after all.

Acknowledgments

This work was supported by JSPS Grants-in-Aid for Publication of Scientific Research Results, Grant Number JP16HP2004 and JSPS KAKENHI Grant Number JP26380454 for FY 2014–2018.
References

Hayashi, S. (1962). *Ryutsu kakumei: Seihin, keiro oyobi shohisha* [Distribution revolution: Products, channels, and consumers]. Tokyo, Japan: Chuokoronsha (in Japanese).

Nikkei Business (Ed.). (1984). *Kaisha no jumyo* [The life spans of companies]. Tokyo, Japan: Nihon Keizai Shimbunsha (in Japanese).

Shimizu, T. (2001). *Gappei kodo to kigyo no jumyo* [Mergers and firm longevity]. Tokyo, Japan: Yuhikaku (in Japanese).

Shimizu, T. (2002). The longevity of the Japanese big businesses. *Annals of Business Administrative Science, 1*, 39–45. doi: 10.7880/abas.1.39

Takahashi, N. (1995). *Keiei no saisei: Senryaku no jidai, soshiki no jidai* [Managerial renaissance: Strategy days and organization days]. Tokyo, Japan: Yuhikaku (in Japanese).

Takahashi, N. (2017, September). *Checking firms’ life spans expected 30 years ago*. Paper presented at ABAS Conference 2017 Summer, University of Tokyo, Japan.