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Organizational alternatives after shareholder capitalism

Jerry Davis
"Berle II" symposium
January 22, 2011

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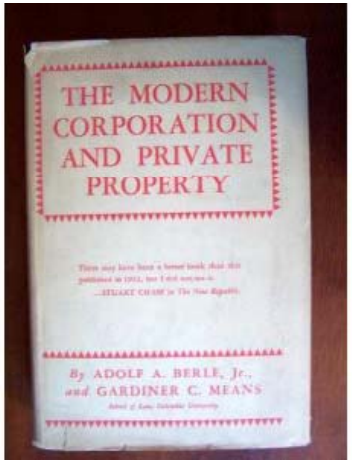
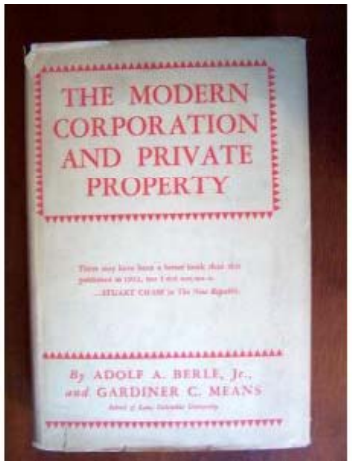
A vision of a corporate-centered society



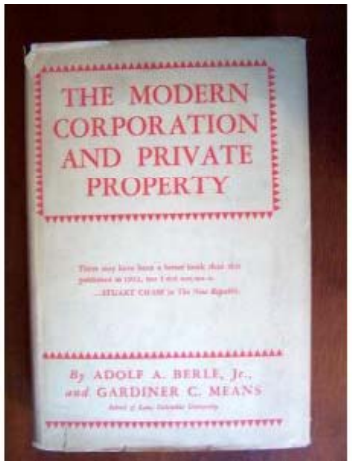
"The factory system, the basis of the industrial revolution, brought an increasingly large number of workers directly under a single management. Then, the modern corporation, equally revolutionary in its effect, placed the wealth of innumerable individuals under the same central control"

A vision of a corporate-centered society



"Economic power, in terms of control over physical assets, is apparently responding to a centripetal force, tending more and more to concentrate in the hands of a few corporate managements. At the same time, beneficial ownership is centrifugal, tending to divide and subdivide, to split into ever smaller units and to pass freely from hand to hand"

A vision of a corporate-centered society



"The economic power in the hands of the few persons who control a giant corporation is a tremendous force which can harm or benefit a multitude of individuals, affect whole districts, shift the currents of trade, bring ruin to one community and prosperity to another. The organization which they control have passed far beyond the realm of private enterprise--they have become more nearly social institutions"

The corporation as a defining social institution

Synecdoche

"The big enterprise is the true symbol of our social order…In the industrial enterprise the structure which actually underlies all our society can be seen…" (Drucker, 1949)

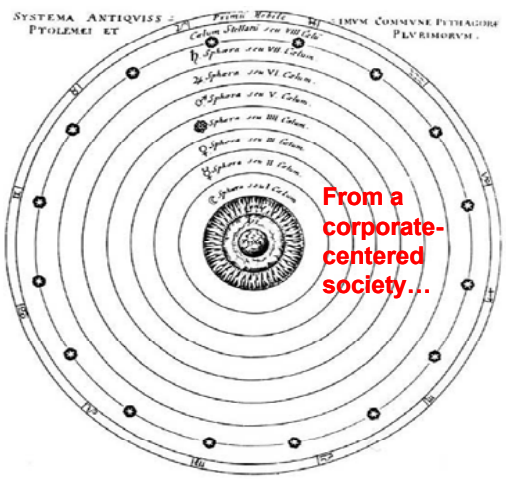
Surrogate

"Organizations are the key to society because large organizations have absorbed society. They have vacuumed up a good part of what we have always thought of as society, and made organizations, once a part of society, into a surrogate of society" (Perrow, 1991)

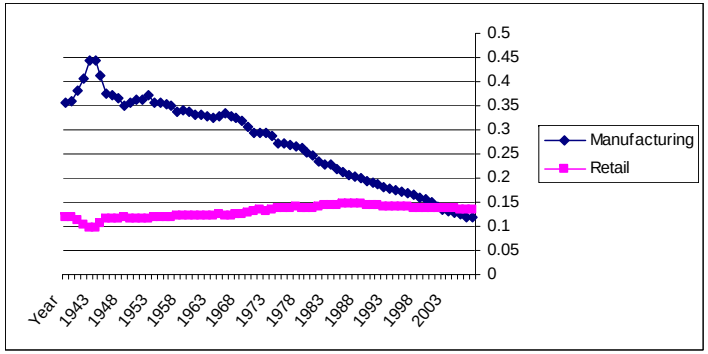
Some premises of the corporate-centered society

1. The typical corporation makes tangible products
2. Corporate ownership is broadly dispersed
3. Corporations aim to grow bigger in assets controlled and number of employees
4. Corporations live a long time

A Copernican shift in American society



Manufacturing employment is increasingly rare in the US



Proportion of US private labor force employed in manufacturing and retail, 1939-2010 (Source: BLS)

Since January 2001, the US has shed 5.5 million jobs in manufacturing– <u>one in three</u>

As of March 2009, more Americans were <u>unemployed</u> than were employed in manufacturing

The largest US employers have shifted from manufacturing to retail and other services

10 Largest US Corporate Employers, 1960-2010

1960	1980	2010
GM	AT&T	WAL-MART
AT&T	GM	TARGET
FORD	FORD	UPS
GE	GE	KROGER
US STEEL	SEARS	SEARS HLDGS
SEARS	IBM	"AT&T"
A&P	ITT	HOME DEPOT
EXXON	KMART	WALGREEN
BETH. STEEL	MOBIL	VERIZON
ITT	GTE	SUPERVALU

Manufacturing Oil Services

Wal-Mart now employs roughly as many Americans as the 20 largest manufacturers *combined*

Retail jobs are not like manufacturing jobs

- Median hourly wage in "Motor Vehicle Manufacturing" for "Production Occupations" (May 2008) : **$27.14**
- Median tenure with current employer in "Transportation Equipment Manufacturing" (Jan. 2004 CPS): **8 years**

- Median hourly wage in "General Merchandise Stores" for "Sales and Related Occupations" (May 2008) : **$9.33**
- Median tenure with current employer in "Retail Trade": **3 years**
- Mean weekly hours worked at Wal-Mart: **34**
- Estimated annual turnover at Wal-Mart: **40%**

There was a time when the owners of corporations were dispersed "widows and orphans"

SHE'S A PARTNER IN A GREAT AMERICAN BUSINESS

She is one of 850,000 owners of Bell System securities. They are typical Americans—some young, some middle age, some old. They live in every part of the nation.

One may be a housewife in Pennsylvania. Another a physician in Oregon—a clerk in Illinois—an engineer in Texas—a merchant in Massachusetts—a miner in Nevada—a stenographer in Missouri—a teacher in California—or a telephone employee in Michigan.

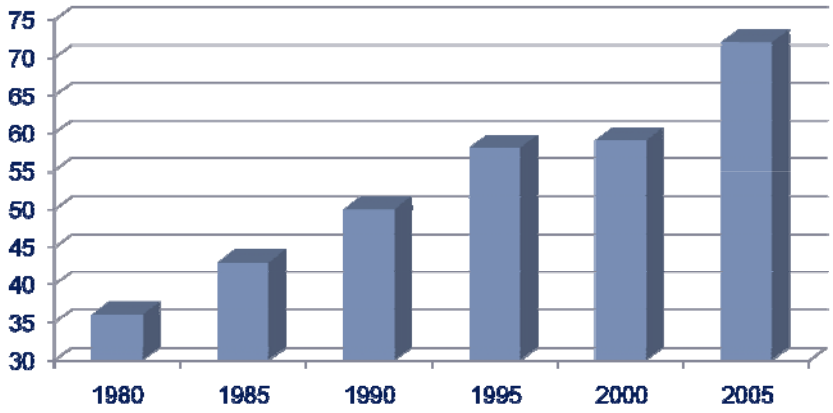
For the most part, Bell System stockholders are men and women who have put aside small sums for saving. More than half of them have held their shares for five years or longer. More than 650,000 of these 850,000 security holders own stock in the American Telephone and Telegraph Company—the parent company of the Bell System. More than 225,000 own five shares or less. Over fifty per cent are women. No one owns as much as one per cent of the stock of A. T. & T.

In a very real sense, the Bell System is a democracy in business—owned by the people it serves.

BELL TELEPHONE SYSTEM

Our Stockholders

Now the widows and orphans buy mutual funds…

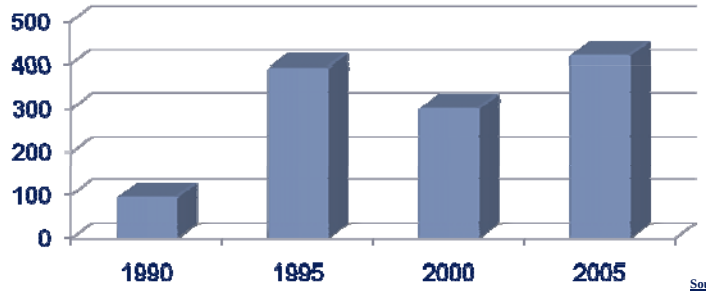


Mean ownership by institutional investors of 1000 largest corporations

Source: Spectrum 13F database, various years

…and Fidelity is the largest shareholder of one in ten US corporations

Number of US-listed firms in which Fidelity is largest shareholder



	1990	1995	2000	2005
# of listed firms in US	3833	5187	5828	4423

Source: *Spectrum* 13F and 13G databases, various years

Increased ownership by institutions has corresponded to increased devotion to "shareholder value"…

"We exist to create value for our share owners on a long-term basis by building a business that enhances The Coca-Cola Company's trademarks."

"Sara Lee Corporation's mission is to build leadership brands in consumer packaged goods markets around the world. Our primary purpose is to create long-term stockholder value."

…and an orientation to share price has induced massive restructuring favoring the "Nike model"

"Wall Street can wipe you out. They are the rule-setters. They do have their fads, but to a large extent there is an evolution in how they judge companies, and they have decided to give premiums to companies that harbor the most profits for the least assets."

John Bryan, CEO, explaining Sara Lee's "de-verticalization" program

The US economy is at an advanced stage of Nike-fication

Corporation ≠ organization: no fixed nationality

THE WALL STREET JOURNAL.
WSJ.com

MAY 27, 2009

Accenture to Move Base To Ireland From Bermuda

By KATHY SHWIFF

Accenture Ltd. said its board has voted to change the consulting company's place of incorporation to Ireland from Bermuda.

Accenture incorporated in Bermuda in 2001 after the company did an initial public offering.

Several large companies have recently announced plans to reincorporate from Bermuda, helping them avoid what are expected to be significant changes in how the U.S. taxes multinational corporations. Earlier this month, drug maker Warner Chilcott Ltd. said its board approved a plan to relocate to Ireland from Bermuda.

Accenture shareholders will be asked to vote on the proposed move at meetings in the next three to four months.

"We believe that incorporating in Ireland will provide Accenture with economic benefits and help ensure our continued global competitiveness," said Chairman and Chief Executive William D. Green, adding that the company will benefit from Ireland's well-developed corporate, legal and regulatory environment.

The technology outsourcing and management consulting company doesn't expect any material change in its operations, financial results or tax treatment as a result of the change.

The company will continue to be registered with the Securities and Exchange Commission and its shares will continue to trade on the New York Stock Exchange.

Corporation ≠ organization: no fixed boundaries

THE WALL STREET JOURNAL.
WSJ.com

LEADER (U.S.) | APRIL 15, 2008
PICTURE SHIFT

U.S. Upstart Takes On TV Giants in Price War

By CHRISTOPHER LAWTON in San Francisco, YUKARI IWATANI KANE in Tokyo and JASON DEAN in Beijing

But one upstart, Irvine, Calif.-based Vizio Inc., has largely surfed past the industry's woes. Its single focus: churning out low-priced flat-panel TVs.

Vizio is a fraction the size of Sony and Samsung Electronics Co., both leading brands in the U.S. flat-panel market. Yet Vizio shipped 12.4% of North America's liquid-crystal display, or LCD, TVs in the last quarter of 2007. That's just behind Sony's 12.5% share and Samsung's 14.2%, according to research firm iSuppli Corp. Overall, Vizio's sales have multiplied to just under $2 billion last year, up from $700 million in 2006 and $142 million in 2005, according to the closely held company.

The California company's success illustrates the rise of a new business model in the fast-changing TV industry. Big Korean and Japanese consumer-electronics makers spent huge sums developing and marketing their own technology, creating a high barrier to entry for newcomers. They also built many key components in-house, including the all-important LCD and plasma display panels.

But panel technology is becoming ever more commoditized, meaning big brands aren't the only ones controlling the field. The shift has allowed nimble players like Vizio, which handles the design and marketing, to hook up with contract manufacturers and produce their own cheap TVs. At the same time, discount retailers such as Wal-Mart Stores Inc. are increasing their sales in the electronics category, slashing prices in the process.

Vizio now has the largest market share of LCD televisions in the US (22%)—with 180 employees

Corporation ≠ organization: no fixed identity

WSJ.com THE WALL STREET JOURNAL. ONLINE

May 9, 2007

ADVERTISING

101 Brand Names, 1 Manufacturer

The Mass Pet-Food Recall Reveals a Widespread Practice: Many Competing Products Come From the Same Factory

By ELLEN BYRON
May 9, 2007

(See Corrections & Amplifications item below.)

Pet owners have been reeling ever since tainted pet food led to the confirmed deaths of more than a dozen dogs and cats and likely sickened many more.

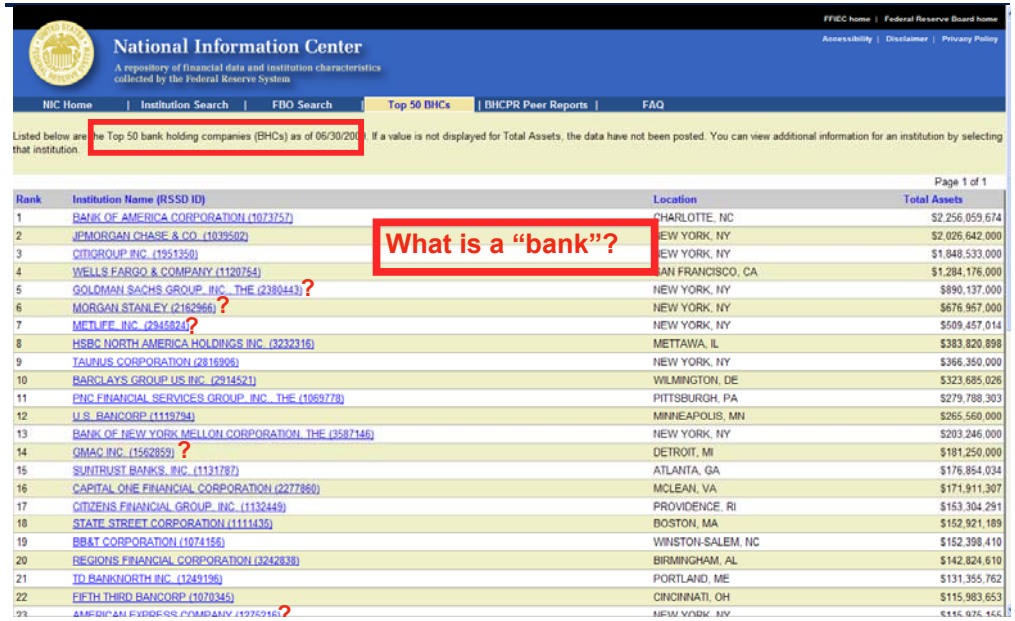
Some owners were also startled to learn that dozens of competing brands, from discount to premium, are all made by the same company, Menu Foods Inc. of Ontario.

Menu has recalled more than 60 million cans of pet food under more than 100 brand names ranging from **Procter & Gamble** Co.'s Iams and Eukanuba brands to Hill's Pet Nutrition Science Diet, owned by **Colgate-Palmolive** Co., to Ol' Roy pet food by **Wal-Mart Stores** Inc. Each was apparently affected by wheat gluten contaminated with melamine, a chemical substance with no approved use in food.

Poisonous pet chow containing melamine from China was made by an Ontario-based manufacturer but sold under dozens of different US brand names.

The global OEM model is not just for Nike anymore.

Corporation ≠ organization: no fixed industry



Rank	Institution Name (RSSD ID)	Location	Total Assets
1	BANK OF AMERICA CORPORATION (1073757)	CHARLOTTE, NC	$2,256,059,674
2	JPMORGAN CHASE & CO. (1039502)	NEW YORK, NY	$2,026,642,000
3	CITIGROUP INC. (1951350)	NEW YORK, NY	$1,848,533,000
4	WELLS FARGO & COMPANY (1120754)	SAN FRANCISCO, CA	$1,284,176,000
5	GOLDMAN SACHS GROUP, INC., THE (2380443) ?	NEW YORK, NY	$890,137,000
6	MORGAN STANLEY (2162966) ?	NEW YORK, NY	$676,957,000
7	METLIFE, INC. (2945824) ?	NEW YORK, NY	$509,457,014
8	HSBC NORTH AMERICA HOLDINGS INC. (3232316)	METTAWA, IL	$383,820,898
9	TAUNUS CORPORATION (2816906)	NEW YORK, NY	$366,350,000
10	BARCLAYS GROUP US INC. (2914521)	WILMINGTON, DE	$323,685,026
11	PNC FINANCIAL SERVICES GROUP, INC., THE (1069778)	PITTSBURGH, PA	$279,788,303
12	U.S. BANCORP (1119794)	MINNEAPOLIS, MN	$265,560,000
13	BANK OF NEW YORK MELLON CORPORATION, THE (3587146)	NEW YORK, NY	$203,246,000
14	GMAC INC. (1562859) ?	DETROIT, MI	$181,250,000
15	SUNTRUST BANKS, INC. (1131787)	ATLANTA, GA	$176,854,034
16	CAPITAL ONE FINANCIAL CORPORATION (2277860)	MCLEAN, VA	$171,911,307
17	CITIZENS FINANCIAL GROUP, INC. (1132449)	PROVIDENCE, RI	$153,304,291
18	STATE STREET CORPORATION (1111435)	BOSTON, MA	$152,921,189
19	BB&T CORPORATION (1074156)	WINSTON-SALEM, NC	$152,398,410
20	REGIONS FINANCIAL CORPORATION (3242838)	BIRMINGHAM, AL	$142,824,610
21	TD BANKNORTH INC. (1249196)	PORTLAND, ME	$131,355,762
22	FIFTH THIRD BANCORP (1070345)	CINCINNATI, OH	$115,983,653
23	AMERICAN EXPRESS COMPANY (1275216) ?	NEW YORK, NY	$115,975,155

Corporation ≠ organization: no employees

"Hermit crab organizations" maintain the brand but lose the people (e.g., Circuit City's 43,000 employees)

Corporations are legal fictions configured to make profits, not to care.

≠

Shareholder capitalism and corporate turnover: The Dow Jones 30 Industrials in 1987

~~Allied Signal~~	~~Eastman Kodak~~	~~Navistar International~~
Alcoa	Exxon	~~Philip Morris~~
~~American Can~~	General Electric	Procter & Gamble
American Express	~~General Motors~~	~~Sears Roebuck~~
AT&T	~~Goodyear~~	~~Texaco~~
~~Bethlehem Steel~~	IBM	~~Union Carbide~~
Boeing	~~International Paper~~	United Technologies
Chevron	McDonald's	~~US Steel~~
Coca Cola	Merck	~~Westinghouse Electric~~
Du Pont	3M	~~Woolworth~~

Blue = in index in 1930

~~text~~ = gone by 2009

Recent exits include AIG, Citigroup, and GM (all now wards of the state)

Some premises of the corporate-centered society

1. ~~The typical corporation makes tangible products~~
2. ~~Corporate ownership is broadly dispersed~~
3. ~~Corporations aim to grow bigger in assets~~ controlled and number of employees
4. ~~Corporations live a long time~~

"Financial thinking" is ubiquitous

Stock market app
- What's the market doing?
- Barolo or Boone's Farm with dinner?

FICO app
- Can I skip yet another month's credit card payment?

Zillow app
- What's my house worth right now?
- Still time to refi and move to Canada?

Facebook "Social Capital Asset Pricing Model" (SCAPM) app
- Whom should I be shorting at this conference?

Can corporations be used as tools of public policy, e.g., to create jobs?

THE WALL STREET JOURNAL.
WSJ.com

OPINION | JANUARY 28, 2010, 11:53 A.M. ET

Apple to the Rescue?

Why President Obama should meditate on the career of Steve Jobs.

By RICH KARLGAARD

The seven-year drizzle of bad news had nearly destroyed American confidence. By Dec. 12, 1980, the prime-lending rate in the U.S. was up to 20.5%. One week later it would peak at 21.5%, the highest in U.S. history. In newly militant Iran, 52 Americans were enduring their 405th day of captivity. The hapless Jimmy Carter had 39 days to go in his presidency. But in truth Mr. Carter's presidency had failed 17 months earlier on July 15, 1979, the night he delivered his "Crisis of Confidence" address to the American people. It instantly became known as Carter's "malaise speech."

Malaise would die with Mr. Carter's presidency. A blast of fresh air preceded Ronald Reagan's presidency on Dec. 12, 1980, in the form of a thriller public stock offering, the largest since Ford Motor's IPO in 1956. That day, underwriters Hambrecht & Quist and Morgan Stanley sold shares of four-year-old Apple Computer to the public. The public snapped it up. Apple's stock spiked to nearly $100 on day two and created more than 300 millionaire employees. Founders Steve Jobs and Steve Wozniak were instantly rich. The great American renaissance—ignited by technology, entrepreneurs and a capital gains tax rate recently reduced to 28% from 49%—had begun.

Mr. Obama and his advisers need to grasp this essential fact: Entrepreneurs are not just a cute little subsector of the American economy. They are the whole game. They will give us tomorrow's Apples and the multiplier effect of small businesses and exciting new jobs that go with them. Entrepreneurs are necessary to keep our large multinationals on their toes. It's no coincidence that the entrepreneurial flowering of the 1970s forced a managerial revolution in large companies during the 1980s and 1990s. Without Steve Jobs, there would have been no Lou Gerstner to reinvent IBM in the '90s. Entrepreneurs like Steve Jobs make everyone better.

THE WALL STREET JOURNAL.
WSJ.com

GADGETS & GAMES | JANUARY 29, 2010

Analysts Expect iPad to Give lift to Asian Suppliers

By AARON BACK, JUNG-AH LEE And CHARMIAN KOK

Apple Inc.'s iPad device may significantly increase demand for components such as touch screens and memory chips, especially if it succeeds in creating a new product category and spawning competitors, according to industry analysts.

Apple suppliers in Asia

NAND flash memory:
- Samsung Electronics (South Korea)
- Toshiba (Japan)

LCD displays:
- LG Display (South Korea)
- Innolux Display (Taiwan)

Assembler:
- Hon Hai Precision Industry (Taiwan)

Touch-screen technology:
- Wintek (Taiwan)
- Sintek Photronic (Taiwan)

Source: Analysts

Analysts say that would be a boon to Asian suppliers, including display makers such as LG Display Co.; chip makers such as Samsung Electronics Co. and Toshiba Corp.; touch-screen makers Wintek Corp. and Sintek Photronic Corp.; and assemblers such as Hon Hai Precision Industry Co., which uses the trade name Foxconn. Shares of these companies all rose Thursday in Asia.

Apple hasn't identified its iPad suppliers and an Apple spokeswoman declined to comment.

Like many technology brands, Apple doesn't actually manufacture most of its products. It hires manufacturing specialists—mainly Taiwanese companies that have extensive operations in China—to assemble its gadgets based on Apple's designs. They, in turn, use parts from large and small manufacturers many in Taiwan, Japan and Korea.

The iPod and iPhone devices have already been a boon to component manufacturers in Asia, and many are hoping for a repeat performance.

The true component mix won't be known until Apple begins shipping the device and third-party analysts can

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May 25, 2010

String of Suicides Continues at Electronics Supplier in China

By DAVID BARBOZA

SHANGHAI — A 19-year-old employee was found dead Tuesday morning in what appears to have been the ninth suicide this year at a factory in southern China operated by Foxconn Technology, one of the world's largest contract electronics manufacturers, according to China's state-run news media.

Foxconn, which produces electronics and computer components for Apple, Dell, Hewlett-Packard and other global companies, has been struggling this year to explain a string of suicides among young workers at its huge complexes in the city of Shenzhen, where the company employs about 420,000 workers.

A spokesman for Foxconn, a unit of Hon Hai Precision Industry of Taiwan, could not be reached for comment Tuesday, and the Shenzhen police did not return phone calls. But Xinhua, China's official news agency, said the Shenzhen police had reported that a young man they identified as Li Hai had apparently jumped to his death at 6:20 a.m. Tuesday at Foxconn.

Wang Tongxin, vice chairman of the general labor union in Shenzhen, a government-controlled organization, said the Shenzhen police had alerted his organization to the death Tuesday.

"We have already sent an investigation team to the factory, and our city government is paying a lot of attention to this," Mr. Wang said by telephone.

Company executives say Foxconn is planning to hire psychiatrists, counselors and monks, and intends to bring in 2,000 singers, dancers and gym trainers to improve life on its two sprawling campuses in Shenzhen.

China's state-run news media also reported Tuesday that Foxconn was building tall fences at its dormitories to prevent workers from jumping to their deaths.

Do corporations have a nationality?

"The interests of a transnational company are not the same as those of the country from which it originates or of the workers it has historically employed. It has become, to coin a phrase, a 'rootless cosmopolitan.'"

Martin Wolf, *Why Globalization Works*

Corporations>>states?

"...the modern corporation may be regarded not simply as one form of social organization but potentially (if not yet actually) as the dominant institution of the modern world...The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern state--economic power versus political power, each strong in its own field...The future may see the economic organism, now typified by the corporation, not only on an equal plane with the state, but possibly even superseding it as the dominant form of social organization"

If you can't beat 'em, join 'em: Governments as vendors in a marketplace of laws

NYSE: Open TIME: 12:13 ET DATE: 8.13.2004 SHARES: 518,926,654
DJIA: 9809.50 ▼ 5.09 NYSE COMPOSITE: 6231.15 ▲ 14.09

39.86 +0.44

20 mins. delayed stock price: As of 11:53, Aug. 13

Royal Caribbean Cruises Ltd. (RCL)
http://www.royalcaribbean.com

RCL LISTED NYSE

LISTING DATE:	INDUSTRY*	ISSUE TYPE:	IPO:
04/28/1993	Recreational Products & Services	Common Stock	X

MARKET DATA

Company Description

Royal Caribbean International is an international cruise company with 28 cruise ships with 58,448 berths. The Company operates two brands, Royal Caribbean International and Celebrity Cruises. These brands offer an array of onboard activities, services and amenities, including swimming pools, sun decks, beauty salons, exercise and spa facilities, ice skating rinks, in-line skating, basketball courts, rock climbing walls, miniature golf courses, gaming facilities, lounges, bars, Las Vegas-style entertainment, cinemas and Royal Promenades, which include interior shopping, dining and an entertainment boulevard.

Investor Contacts

http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=rcl&script=1008&layout=9
Erin Williams
Director, Investor Relations
1050 Caribbean Way
Miami, FL 33132
Phone: (305) 539-6153
Fax : (305) 539-6400
Email Address: investorrelations@rccl.com

Royal Caribbean International

Headquarters: Miami

Ship registry: Ecuador, Bahamas, Norway

Ownership: Wilhelmsen family (Norway); Pritzker and Ofer families (US & Israel, via Bahamas); Osiris Holdings (Monaco); and ~ 130 institutions

Incorporation: Liberia

RCL's 2009 revenues: $5.9 B

Liberia's 2009 GDP: $1.6 B

Liberian International Ship & Corporate Registry

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Virginia New York Hamburg Hong Kong London Monrovia Piraeus Tokyo Zurich

It was 55 years ago Liberia's maritime program opened its doors to the world's shipping community. Within no time that community responded quickly, and in three months the 29,000dwt tanker World Peace, a large vessel by the standards of her day, had become the first ocean going merchant vessel to fly Liberia's star and stripes. Those 55 years have seen the fleet grow until today it stands at being one of the largest registries in the world.

Today's position has as its foundation the high standards set and maintained during those 55 years. Liberia has often led the world in introducing new standards of safety and in implementing new international codes and conventions, and the flag is recognized as being the Premier of the open registry. The registry has a reputation for quality, efficiency, safety, and service. Liberia also offers one of the most convenient, efficient, and tax effective offshore corporate registries in the world.

Administration is being updated to become more efficient and legislation is being reviewed in our efforts to make Liberia still more attractive to the ship owner without losing sight of the high standards we have set. The registry has offices in Vienna Virginia, USA, New York, Piraeus Greece, Hong Kong, London, Monrovia, Zurich and Tokyo.

Contact Us:
Virginia, New York, Hamburg, Hong Kong, London, Monrovia, Piraeus, Tokyo, Zurich

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* You can now order Publications online *

The corporate and ship registry for "Liberia" is operated out of an office park near Dulles Airport

Corporations are not the only way to organize economic activity

- **Producer co-operatives**
- **Consumer co-operatives**
- **Mutuals**

The challenge for social theory

- How can we build on legal and technological changes to create more “rooted” non-corporate organizations?
  - Legal changes
    - L3C enabling laws
    - B corporation laws
  - Technological changes
    - ICTs and new methods of coordinated action

- The goal: the iPhone “workplace democracy app” that turns GM into a kibbutz