The Coming Collapse of the Corporation

Prof. Jerry Davis
Chinese Economists Society
15 March 2015

How did we get from here…

1889-2012*

...to here…

~2007-2011

...and where do we go next?

The high water mark of corporate capitalism in the United States: 1973

The golden era of corporate society

• “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, 1950)

• “The whole labor force of the modern corporation is, insofar as possible, turned into a corps of lifetime employees, with great emphasis on stability of employment” and thus “Increasingly, membership in the modern corporation becomes the single strongest social force shaping its career members…” (Kaysen, 1957)

• “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. Corporate control is concentrated
4. Corporations aim to grow bigger in assets and number of employees
5. Corporations live a long time

1. The typical corporation makes tangible products

Manufacturing employment is increasingly rare

Since January 2001, the US has shed 5 million jobs in manufacturing – one in three

As of March 2009, more Americans were unemployed than were employed in manufacturing

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

10 Largest US Corporate Employers, 1960-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>1960</th>
<th>1980</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GM</td>
<td>AT&amp;T</td>
<td>WAL-MART</td>
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<tr>
<td></td>
<td>AT&amp;T</td>
<td>GM</td>
<td>TARGET</td>
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<td>FORD</td>
<td>FORD</td>
<td>UPS</td>
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<td></td>
<td>GE</td>
<td>GE</td>
<td>KROGER</td>
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<td></td>
<td>US STEEL</td>
<td>SEARS</td>
<td>SEARS HLDGS</td>
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<td></td>
<td>SEARS</td>
<td>IBM</td>
<td>“AT&amp;T”</td>
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<td></td>
<td>A&amp;P</td>
<td>ITT</td>
<td>HOME DEPOT</td>
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<tr>
<td></td>
<td>EXXON</td>
<td>KMART</td>
<td>WALGREEN</td>
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<tr>
<td></td>
<td>BETH. STEEL</td>
<td>MOBIL</td>
<td>VERIZON</td>
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<tr>
<td></td>
<td>ITT</td>
<td>GTE</td>
<td>SUPERVALU</td>
</tr>
</tbody>
</table>

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

Wal-Mart now employs roughly as many Americans as the 20 largest manufacturers combined
2. Corporate ownership is broadly dispersed

There was a time when the owners of corporations were dispersed "widows and orphans"...
...and BlackRock is the largest shareholder of one in five US corporations

- BlackRock has $4.7 trillion in assets under management, including iShares
- BlackRock owns 5% or more of over 1800 US corporations
- BlackRock is the single largest shareholder of one in five US corporations, including
  - ExxonMobil, Chevron, Philips, Marathon, Apple, GE, AT&T, JP Morgan Chase, Bank of America, Citigroup…and hundreds of others

3. Corporate control is concentrated

From 1905 to ~ 2001, corporate elites formed a well-connected old boys’ network via shared directors…

...with banks sitting somewhere in the middle
### JP Morgan Chase board, 2001

<table>
<thead>
<tr>
<th>Director's Name</th>
<th>Company/Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jamie Dimon</td>
<td>JPMorgan Chase</td>
</tr>
<tr>
<td>Arkady Fedetsky</td>
<td>Arkady Fedetsky</td>
</tr>
<tr>
<td>Edward E. Brennan</td>
<td>Edward E. Brennan</td>
</tr>
<tr>
<td>Robert H. Scull</td>
<td>Robert H. Scull</td>
</tr>
<tr>
<td>John R. Gerlach</td>
<td>John R. Gerlach</td>
</tr>
<tr>
<td>Joseph R. D'Arena</td>
<td>Joseph R. D'Arena</td>
</tr>
<tr>
<td>William H. Gray, Jr</td>
<td>William H. Gray, Jr</td>
</tr>
<tr>
<td>William Harrison, Jr</td>
<td>William Harrison, Jr</td>
</tr>
<tr>
<td>Helen L. Kaptur</td>
<td>Helen L. Kaptur</td>
</tr>
<tr>
<td>Lee H. Raymond</td>
<td>Lee H. Raymond</td>
</tr>
<tr>
<td>John R. Stafford</td>
<td>John R. Stafford</td>
</tr>
<tr>
<td>Eugene A. Wessen, III</td>
<td>Eugene A. Wessen, III</td>
</tr>
<tr>
<td>Marion H. Wilbanks</td>
<td>Marion H. Wilbanks</td>
</tr>
<tr>
<td>Lloyd C. Weise</td>
<td>Lloyd C. Weise</td>
</tr>
</tbody>
</table>

### Who were the top 5 inner circle directors in 2001?

1. Jamie Dimon
2. Arkady Fedetsky
3. Edward E. Brennan
4. Robert H. Scull
5. John R. Gerlach

Source: Forbes (2002)

By 2011, only one director served on 5+ boards in the S&P 500, and the “inner circle” was now called “overworked directors.”

4. Corporations aim to grow bigger in assets and number of employees.
Shareholder value and corporate strategy

- Orientation toward share price leads companies to adopt strategies and structures valued by financial markets
- Market-approved strategies include:
  - Pervasive outsourcing (“Nike-fication”)
  - Employment minimization
  - Domain-shopping for tax havens
  - Stock buybacks
- Widespread orientation toward share price, as in the US, creates pathologies for the wider economy

A case study

- In 1996, Sara Lee was #50 on the *Fortune* 500 list of the largest American corporations
- Its brands included:
  - Hanes
  - Coach
  - Champion
  - Wonderbra
  - Jimmy Dean
  - Ball Park
  - Douwe Egberts
  - …and dozens of others

The move toward shareholder value

- “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.”
- “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
- 2012: after 15 years of shareholder-oriented restructurings and spinoffs, what was left of Sara Lee split into Hillshire Brands (US) and Douwe Egberts Master Blenders (Europe)

The employment consequences of Sara Lee’s pursuit of shareholder value

![Employment at Sara Lee, 1995-2012](chart.png)
Whose management has created more value?

- Revenues in 2013: $98B
- Employees: 375,000
- Net income: $1.5B
- Market capitalization: $23B

- Revenues in 2013: $0.665B
- Employees: 2,712
- Net income: $-0.645B
- Market capitalization: $23B

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

Corporation ≠ organization: no fixed boundaries

Vizio now has the largest market share of LCD televisions in the US (22%)—with 196 employees
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.

Spinoffs, layoffs, and outsourcing have shrunk the largest US corporations

"Hermit crab organizations" maintain the brand but lose the people (e.g., Circuit City’s 43,000 employees)
For Flip Video Camera, Four Years From Hot Start-Up to Obsolete

by NIKI GLASSMAN and DAVID W. HEMM

The New York Times
April 13, 2011

The Flip video camera, reviewed by a few entrepreneurs in an office above Gap's department store in San Francisco, went on sale in 2005, and quickly dominated the consumer market.

The start-up sold two million of the pocket-size, easy-to-use cameras in the first two years. Then, in 2009, the founders cashed out and sold to Cisco Systems, the computer networking giant, for $520 million.

On Tuesday, Cisco announced it was shutting down its Flip video camera division.

Even in the life cycle of the tech world, this is fast.

From the outset, the acquisition was an odd fit for Cisco, which is known for its enterprise networking solutions. To some analysts, the decision to shutter Flip was an admission by Cisco that it made a mistake.

“Cisco was an odd fit for a consumer product,” said Mr. Kerdman, a principal at Syed Capital, a Boston venture capital firm. “They’re not wired to do it themselves, so they did it by acquisition. Flip was one of the most visible targets out there. But it’s really hard to turn an elephant into a horse. Cisco’s an elephant.”

As the flap rises, and new devices, like the iPad, also a real illustration of the ferocious metabolism of the consumer marketplace.

5. Corporations live a long time

The Dow Jones Industrials, 1987

<table>
<thead>
<tr>
<th>Company</th>
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</tr>
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<tbody>
<tr>
<td>Allied Chemicals</td>
<td>Eastman Kodak</td>
<td>Owens-Illinois</td>
</tr>
<tr>
<td>Air Products</td>
<td>Exxon</td>
<td>Procter &amp; Gamble</td>
</tr>
<tr>
<td>American Can</td>
<td>GE</td>
<td>Sears Roebuck</td>
</tr>
<tr>
<td>Alcoa</td>
<td>General Foods</td>
<td>Raytheon</td>
</tr>
<tr>
<td>American Tobacco</td>
<td>Gillette</td>
<td>Telefunken</td>
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<tr>
<td>Canadian Copper</td>
<td>Goodyear</td>
<td>Union Carbide</td>
</tr>
<tr>
<td>Bankers Trust</td>
<td>International Harvester</td>
<td>United Technologies</td>
</tr>
<tr>
<td>Chevron</td>
<td>International Nickel</td>
<td>US-Ginter</td>
</tr>
<tr>
<td>Chrysler</td>
<td>International Paper</td>
<td>Weavercraft Electric</td>
</tr>
<tr>
<td>Du Pont</td>
<td>Johns-Manville</td>
<td>Westinghouse</td>
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</tbody>
</table>

= gone by 2013  = really “SBC”

The New York Times
May 7, 2014

Sony’s Bread and Butter? It’s Not Electronics

by YOSHIAKI MIURA

TOKYO — Sony is best known as a consumer electronics company, making PlayStation game consoles and televisions. And it loses money on almost every gadget it sells.

Sony has made moves making Hollywood movies and selling music. That profitable part of the business is what Daniel S. Leck, an American investor and manager of the hedge fund Third Point, wants Sony to spin off to raise cash to restructure its electronics business.

But as Mr. Leck pressures Sony executives to divest or refocus the company’s ailing electronics arm, some analysts are asking Why bother?

Sony, it is suggested, might be better off just selling insurance.

Or just making movies and music. But not electronics.

A new report from the investment banking firm Jeffries delivered a harsh assessment of Sony’s electronics business. “Electronics is by definition hard and, in one view, it’s work ware,” wrote Ari Galay, consumer technology analyst for Jeffries.

In its report, released this week, it’s not even a niche electronics market.

The maker of the Walkman and the Trinitron without electronics? What would it do?

Although Sony sells hundreds of products as varied as batteries and head mounted y. Dophones, it is a successful business is selling insurance. While it doesn’t run the business in the United States or Europe.

money writing life, auto and medical policies in Japan.”
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### The mashup approach to enterprise

- “The building blocks for organizations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure” (Meyer and Rowan)
- What’s different now: the tools for “organizing without organizations” are readily available

### How-to guide for an instant startup, ca. 2014

- **Product:** iPhone “remote drone assassin”
- **Target market:** neo-mercenary firms

1. Rent a desk in a shared office
2. Incorporate online in Liberia for $713.50

3. Crowdsourse the funding at Kickstarter

4. Hire programmers for the app at oDesk

5. Find a drone manufacturer at Alibaba.com
6. Set up a payment system at Square

7. Get it shipped from the dock to our customers

The story so far:

The public corporation is now unnecessary for production, unsuited for stable employment and the provision of social welfare services, and incapable of providing a reliable long-term return on investment

The number of public corporations in the US has dropped by over half since 1997