How finance turned corporations into rootless cosmopolitans

Jerry Davis
ASA panel on "corporate citizenship"
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Can a corporation have citizenship?

“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

Corporation ≠ organization: no fixed nationality

Accenture to Move Base To Ireland From Bermuda

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

Vizio now has the largest market share of LCD televisions in the US (22%)—with 160 employees

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 American liquid crystal displays, or LCD TVs in the last quarter of 2009.

That’s just behind Sony’s 14.3% share and Samsung’s 14.4%, according to research firm Supply Co. Overall, Vizio’s sales have multiplied by just under 4.2 billion last year, up from $770 million in 2006 and $1.2 billion 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 large sums developing and marketing their own technology, creating a high barrier to entry for newcomers. They also buy many key components in-house, including the all-important LCD and plasma display panels.

Our panel technology is becoming ever more commoditized, meaning big brands money the only ones competing in the field. The shift has allowed companies such as Vizio, which handles the design and manufacturing, to break up both 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.
Corporation ≠ organization: no fixed identity

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

What is a “bank”?

Corporations are legal fictions configured to make profits, not to care.
Can corporations be used as tools of public policy, e.g., to create jobs?

The Wall Street Journal

Apple to the Rescue?
Why President Obama should mediate on the career of Steve Jobs.

By retrofit Karlgaard

The seven-year drizzle of bad news had nearly destroyed American confidence. By Dec. 13, 1979, the prime lending rate in the U.S. was up to 20.5%. The Dow Jones industrial average fell to its lowest in 14 years. Industry's net worth had declined 43% over the previous decade. The business-friendly Jimmy Carter had 39 days to go in his presidency. But in truth, Mr. Carter's presidency had failed 17 months earlier—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 blust of fresh air preceded Ronald Reagan's presidency on Jan. 20, 1981, in the form of a thrilling public stock offering, the largest since Ford Motor Co.'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 climbed to nearly $100 on day two and created more than 500,000 millionaires. Founders Steve Jobs and Steve Wozniak were instantly rich. The giant General Electric was igniting, technology entrepreneurs and a capital gains tax rate recently reduced to 28% from 40% had begun.

Mr. Obama and his advisors need to grasp this essential fact: Entrepreneurs are America's job creators. They are the whole game. They will ease our temporary troubles and the multiblender effect of small businesses and boosting 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 1980s forced a managerial revolution in large companies during the 1990s. Without Steve Jobs, there would have been no Lee Garthwaite to reinvent IBM in the 1980s. Entrepreneurs like Steve Jobs make everyone better.

The New York Times

String of Suicides Continues at Electronics Supplier in China

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 computers and component parts 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 large complexes in the city of Shenzhen, where the company employs about 400,000 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 a.m. Tuesday at Foxconn.

Yang Longjun, 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. Yang said in a telephone interview.

Company executives say Foxconn is planning to hire psychiatrists, counselors and monks, and intends to bring in 2,000 shamans, dancers and gong 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.
Why blame finance for corporate cosmopolitanism?

There was a time when the owners of corporations were “widows and orphans” and corporations were social institutions.

Now the widows and orphans buy mutual funds...

Our Stockholders

Mean ownership by institutional investors of 1000 largest corporations

Source: Spectrum 13F database, various years
...and mutual funds are highly concentrated

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

<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>1990</td>
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<td>2000</td>
<td>300</td>
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# 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 an “OEM 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

Corporations are not the only way to organize economic activity

- Producer co-operatives
- Consumer co-operatives
- Mutuals
The challenge for sociologists

- 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