

After the ownership society: Another world is possible

Jerry Davis
"Markets on Trial"
October 24, 2009

MICHIGAN 
ROSS SCHOOL OF BUSINESS



Agenda for this talk

- ~~The corporate-centered society, 1930-2000~~
- ~~The ownership society, 2001-2007~~
- The mess we're in right now, and how economic sociology might help, 2008-?

MICHIGAN 
ROSS SCHOOL OF BUSINESS

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, 1950)

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)

MICHIGAN 
ROSS SCHOOL OF BUSINESS

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

10 Largest US Corporate Employers, 1960-2009

<u>1960</u>	<u>1980</u>	<u>2009</u>
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

MICHIGAN 
ROSS SCHOOL OF BUSINESS

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

~~~~~~~~~ = gone by 2009

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

## The re-configurable supply chain is the new black

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.

A company of 6 people can grow to \$2 billion in sales by assembling the right supply and distribution network

THE WALL STREET JOURNAL  
WSJ.com

OCTOBER 20, 2009

## Employers Hold Off on Hiring

By TIMOTHY AEPPEL and CONOR DOUGHERTY

Companies across the economy are holding off on hiring even as the profit outlook improves, amid economic uncertainty and their own success at raising productivity in rough waters.

Hiring always lags behind in economic recoveries, but the outlook this time is worse, many economists say. Most forecasters now expect a prolonged period of high unemployment, even though the government is expected to report next week that the economy grew in the third quarter, after four quarters of contraction. That is sure to frustrate the jobless and could be a problem for the Obama administration.

There are several major factors behind the trend, which is coming on top of sharper-than-expected job cuts in the recession. Many businesses have nagging doubts about the durability of the upturn, attributing much of the recent growth in orders to a move by their customers to rebuild inventories and to government stimulus spending, rather than underlying strength in their markets.

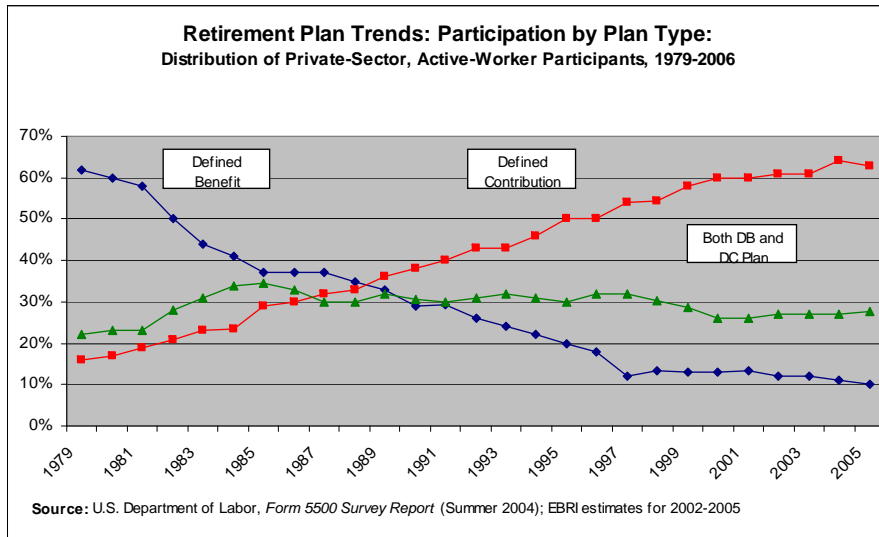
Businesses also face uncertainty about the potential costs of regulatory moves -- such as an expansion of health care and climate legislation -- that could drive up costs. And many employers have learned how to produce more with a smaller number of people than they previously thought possible.

## Long-term attachments to employees can be costly...

"Our legacy costs in pensions and health care are an area of significant competitive disadvantage for us... We're now subject to global competition. We're running against people who do not have these costs, because they are funded by the government."

Rick Wagoner, CEO of GM, Feb. 2006

## ...so most employers have abandoned traditional company pensions in favor of relatively portable 401(k) plans



## (And some have abandoned their retirees...)

July 2008

Dear Salaried Retiree or Surviving Spouse:

Since the first of this year, U.S. market and economic conditions have become significantly more difficult. These conditions, along with the rapid change in automotive industry sales mix, require us to take further actions that will position GM for sustainable profitability and growth. As a result, GM is announcing a change to the *General Motors Salaried Health Care Program*.

Effective January 1, 2009, GM is canceling health care coverage for salaried retirees and their dependents age 65 or older. Instead, eligible salaried retirees and surviving spouses over age 65 will receive a monthly pension increase of \$300. This pension increase is designed to help offset some of your health care costs in retirement.

OCTOBER 19, 2009

## Slump Prods Firms to Seek New Compact With Workers

By PHRED DVORAK and SCOTT THURM

The deep recession appears to be drawing to a close, but not its effect on the workplace.

Since the downturn began, thousands of employers have cut pay, increased workers' share of health-care costs or reduced the employer contribution to retirement plans.

Two-thirds of big companies that cut health-care benefits don't plan to restore them to pre-recession levels, they recently told consulting firm Watson Wyatt. When the firm asked companies that have trimmed retirement benefits when they expect to restore them, fewer than half said they would do so within a year, and 8% said they didn't expect to ever.

Changes like these are reshaping employment in America, injecting uncertainty and delivering the jolting news that pay can go down as well as up. The changes are eroding two pillars of the late-20th-century employment relationship: employer-subsidized retirement benefits and employer-paid health care.

Even as Congress wrestles with how to extend health insurance to more Americans, and considers putting pressure on employers to offer coverage, some companies feel they have no choice but to pull back -- dropping health plans or weighing such a move.

One reason: Although employers pay a smaller percentage of health costs, their dollar outlays continue to rise rapidly, as medical costs do. Employers that offer health insurance spend an average of \$6,700 per employee on it this year, nearly twice as much as in 2001, according to consulting firm Hewitt Associates.

# The large corporation is no longer the predominant source of social welfare in the US

## After corporate feudalism: the “ownership society”

“In America’s ideal of freedom, citizens find the dignity and security of economic independence, instead of laboring on the edge of subsistence. This is the broader definition of liberty that motivated the Homestead Act, the Social Security Act, and the G.I. Bill of Rights. And now we will extend this vision by reforming great institutions to serve the needs of our time. To give every American a stake in the promise and future of our country, we will bring the highest standards to our schools, and build an ownership society. We will widen the ownership of homes and businesses, retirement savings and health insurance - preparing our people for the challenges of life in a free society. By making every citizen an agent of his or her own destiny, we will give our fellow Americans greater freedom from want and fear, and make our society more prosperous and just and equal.”

*George W. Bush second inaugural address, January 2005*

## A super-subtle agenda behind the ownership society?

### *New Contract*

### In Bush's 'Ownership Society,' Citizens Would Take More Risk

Beyond Social Security Moves,  
His Vision Encompasses  
Health Care and Housing  
Shrinking the Safety Net

By JACKIE CALMIES  
Staff Reporter of THE WALL STREET JOURNAL  
February 28, 2005; Page A1

WASHINGTON -- President Bush's campaign to revamp Social Security is just the boldest stroke in a much broader effort: To rewrite the government's social contract with citizens that was born of Franklin Roosevelt's New Deal and expanded by Lyndon Johnson's Great Society.

\*\*\*\*\*

Though the president says he sees a continued role for Social Security, Democrats insist his goal is complete privatization and fear a partisan motive as well. Conservative activist and White House ally Grover Norquist, for example, says more stock owners would mean more Republicans, making the party "a true and permanent national majority." He adds: "Obviously Social Security is the key to getting this done."

## Expanding home ownership

“The President believes that homeownership is the cornerstone of America’s vibrant communities and benefits individual families by building stability and long-term financial security. In June 2002, President Bush issued *America’s Homeownership Challenge* to the real estate and mortgage finance industries to encourage them to join the effort to close the gap that exists between the homeownership rates of minorities and non-minorities. The President also announced the goal of increasing the number of minority homeowners by at least 5.5 million families before the end of the decade.”

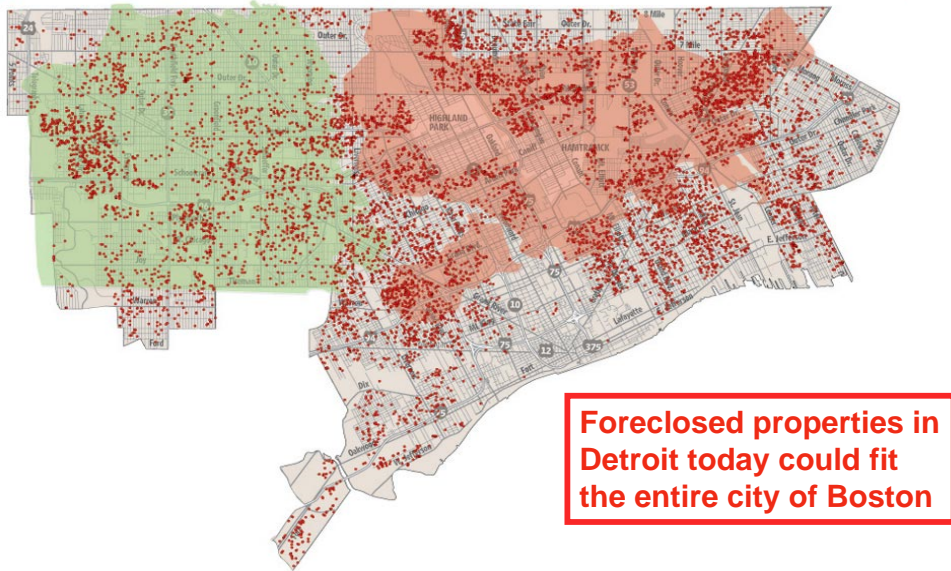
*Ownership Society Fact Sheet*

## The mortgage finance industry responds

- “The company put ‘bounties’ on minority borrowers. By this I mean that loan officers received cash incentives to aggressively market subprime loans in minority communities”  
*Former Baltimore-based Wells Fargo loan officer*
- “Wells Fargo mortgage had an emerging-markets unit that specifically targeted black churches, because it figured church leaders had a lot of influence and could convince congregants to take out subprime loans.”  
*Another Wells Fargo loan officer*

## America's Homeownership Challenge indeed...

● = Tax-foreclosed parcels   ■ = Area the size of San Francisco   ■ = Area the size of Boston



What next: how to turn the ruins left by the corporate-centered society into a livable home

## Looking backwards and forwards

- “The organizational inventions that can be made at a particular time in history depend on the **social technology available at that time**. Organizations which have purposes that can be efficiently reached with the socially possible organizational forms tend to be founded during the period in which they become possible”  
Art Stinchcombe, 1965
- The turn of the 20<sup>th</sup> century: the integrated corporation (e.g., General Motors)
- The turn of the 21<sup>st</sup> century: the iPhone “workplace democracy app” that turns GM into a kibbutz

## Everything we've learned from organization theory since 1977

- Network theory
  - Who you know matters (Granovetter, 1985)
  - Who you're seen with matters (Podolny, 1993)
  - Knowing people who don't know each other can be useful (Burt, 1992)
  - More networks are good up to a point; then they are bad (Uzzi, 1997)
- Institutional theory
  - We often imitate our friends or do what we're told (DiMaggio and Powell, 1983)
  - Sometimes we fake it (Meyer and Rowan, 1977)
  - **Innovation usually involves cutting and pasting (Stark, 1997)**

## 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

## 15 February 2003: “The World Says No to War”

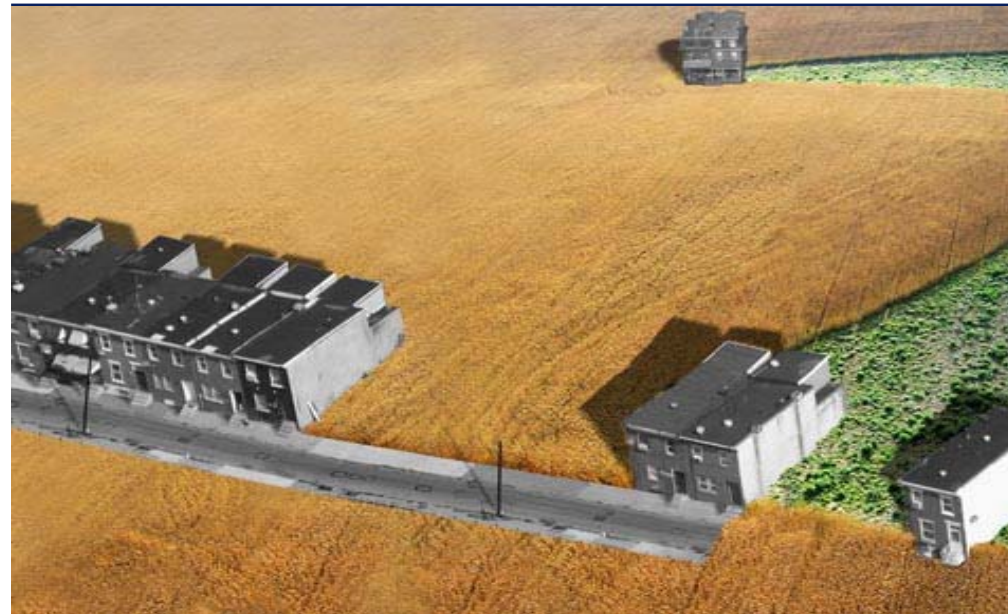
Up to 10 million citizens on every continent (including Antarctica) marched in protest on the same day against the imminent US invasion of Iraq



## How to fix Detroit: turn vacant land...



## ...into urban farms

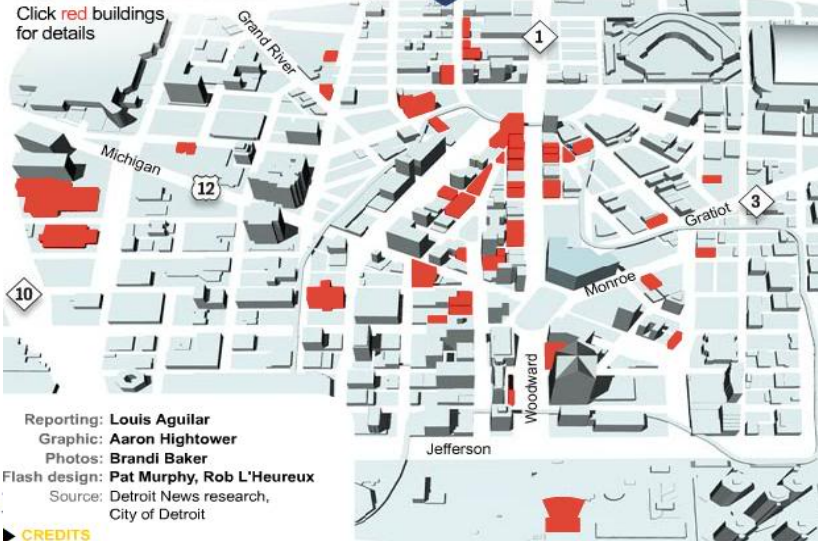


## Turn abandoned corporate headquarters...

### empty monuments

exploring Detroit's vacant buildings

Click red buildings for details



Reporting: **Louis Aguilar**  
Graphic: **Aaron Hightower**  
Photos: **Brandi Baker**  
Flash design: **Pat Murphy, Rob L'Heureux**  
Source: Detroit News research,  
City of Detroit

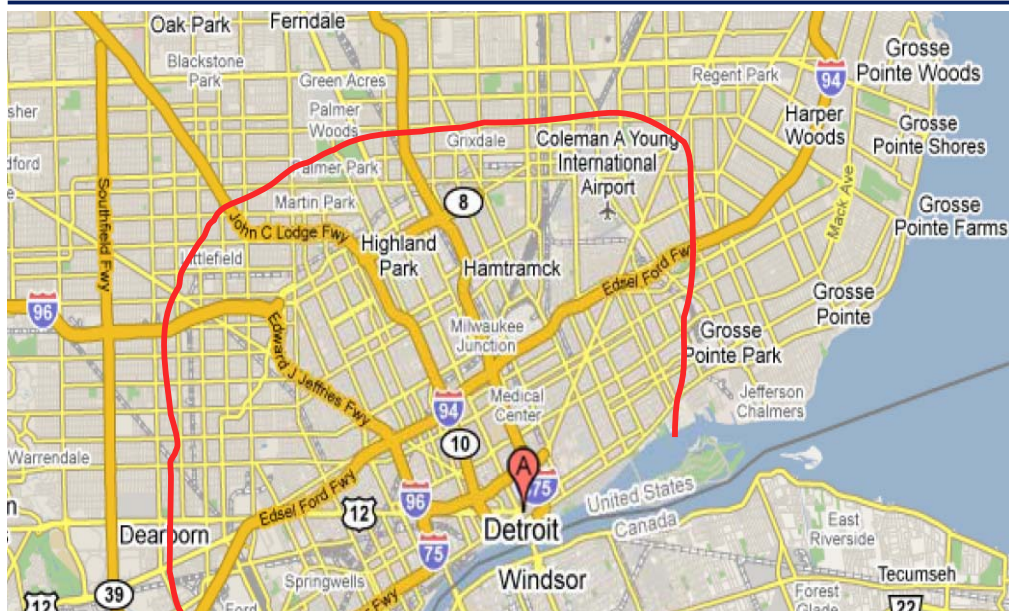
► CREDITS

25

## ...into grain silos



## Turn hostile suburban neighbors...



## ...into hilarious town hall protesters



# The Museum of Organizational Natural History

