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

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1. The typical corporation makes tangible products

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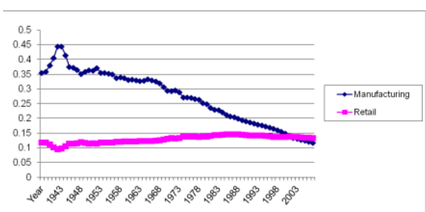
Manufacturing employment is increasingly rare



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

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

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*

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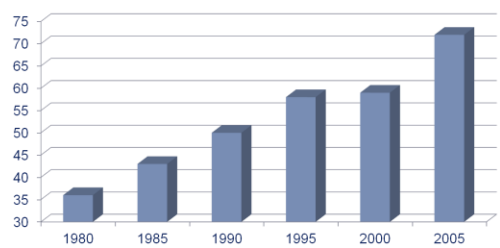
2. Corporate *ownership* is broadly dispersed

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

Our Stockholders

Now widows and orphans buy mutual funds and ETFs…



Mean ownership by institutional investors of 1000 largest corporations

Source: Spectrum 13F database, various years

…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

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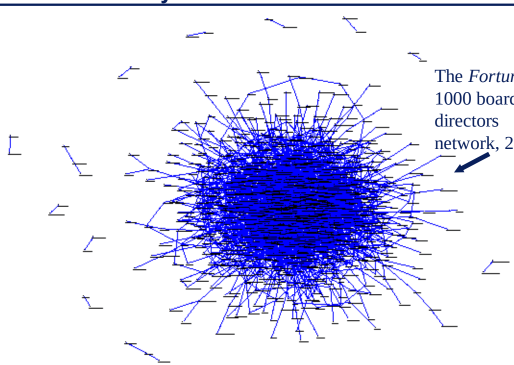
From 1905 to ~ 2001, corporate elites formed a well-connected old boys' network via shared directors…



The *Fortune* 1000 board of directors network, 2001

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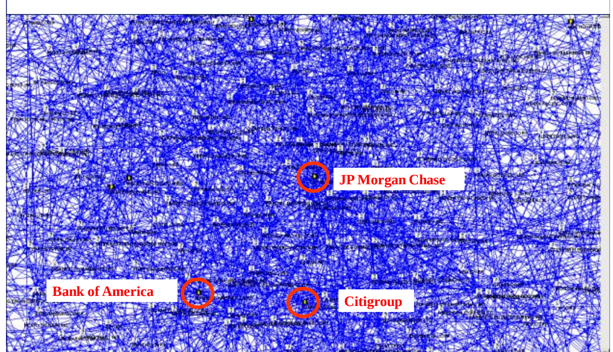
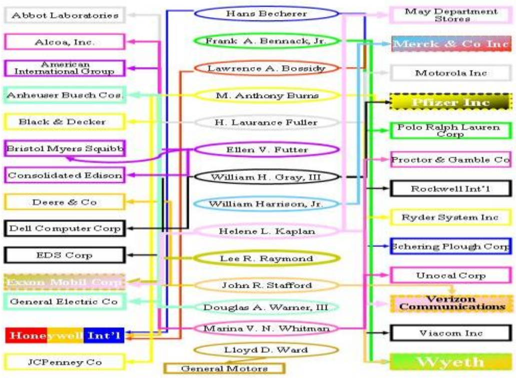
…with banks sitting somewhere in the middle



JP Morgan Chase board, 2001



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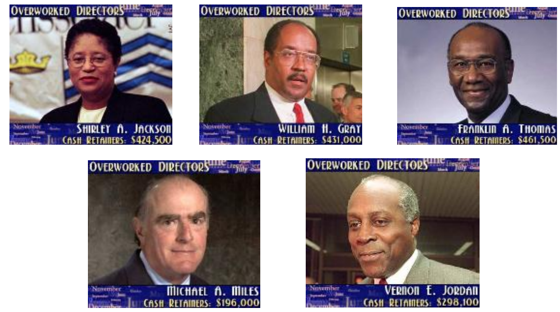
Who were the top 5 inner circle directors in 2001?



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"

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4. Corporations aim to grow bigger in assets and number of employees

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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

THE WALL STREET JOURNAL.

BUSINESS

Tyson Wins Battle to Buy Hillshire

All-Cash Offer of $63 a Share Values Firm Around $7.7 Billion and Would Best Bid by Pilgrim's Pride

By DANA MATTIOLI, LIZ HOFFMAN and JACOB BUNGE

Updated June 8, 2014 11:17 p.m. ET

WSJ's Victor Reklaitis joins the News Hub's Simon Constable with a look at the markets, including a deal between Tyson and Hillshire that has captured Wall Street's attention. Photo: Getty

Tyson Foods Inc. emerged as the winner in a battle to acquire Hillshire Brands Co. , offering almost a billion dollars more than rival Pilgrim's Pride Corp.'s bid last week for the maker of Jimmy Dean sausages.

Tyson offered $63 in cash per share, according to people familiar with the matter, a bid that valued Hillshire at around $7.7 billion. The bid is nearly $1 billion more than Pilgrim's Pride, a unit of Brazilian meatpacking giant JBS SA, offered for the company last week. Pilgrim's set off the bidding war late last month by making an unsolicited offer for the company. Tyson's new offer represents a roughly 70% premium to the price of Chicago-based Hillshire before the bidding began.

Winning Hillshire would vault Springdale, Ark.-based Tyson ahead in the company's long-running effort to build a business in branded meat products. Tyson is the biggest U.S. chicken processor and a major processor of beef and pork.

Such packaged meats generally carry higher profit margins than the meat Tyson sells to restaurants and food-service operations, which accounts for a big portion of the company's sales.

Hillshire's Jimmy Dean brand dominates refrigerated breakfast sausage sales with nearly one-third of the market, according to data from market research firm IRI, and its Ball Park brand leads hot dog

Whose management has created more value?

Kroger

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

Twitter

- 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

THE WALL STREET JOURNAL.
WSJ.com

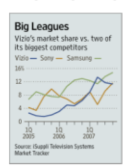
LEADER (U.S.) | APRIL 15, 2008

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 196 employees

Corporation ≠ organization: no fixed identity

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.

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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 employees

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

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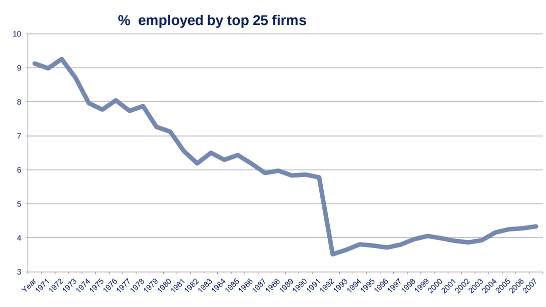
Spinoffs, layoffs, and outsourcing have shrunk the largest US corporations



Source: Bureau of Labor Statistics; Compustat Annual Industrials

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5. Corporations live a long time

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The Dow Jones Industrials, 1987

~~Allied Chemical~~	~~Eastman Kodak~~	~~Owens-Illinois Glass~~
~~Alcoa~~	Exxon	Procter & Gamble
~~American Can~~	GE	~~Sears Roebuck~~
~~AT&T~~	~~General Foods~~	~~Swift & Co~~
~~American Tobacco~~	~~GM~~	~~Texaco~~
~~Anaconda Copper~~	~~Goodyear~~	~~Union Carbide~~
~~Bethlehem Steel~~	~~International Harvester~~	United Technologies
Chevron	~~International Nickel~~	~~U.S. Steel~~
~~Chrysler~~	~~International Paper~~	~~Westinghouse Electric~~
Du Pont	~~Johns Manville~~	~~Woolworth~~

= gone by 2013 = really "SBC"

The New York Times Reprints

April 12, 2011

For Flip Video Camera, Four Years From Hot Start-Up to Obsolete

By SAM GROBART and EVELYN M. RUSLI

It was one of the great tech start-up success stories of the last decade.

The Flip video camera, conceived by a few entrepreneurs in an office above Gump's department store in San Francisco, went on sale in 2007, and quickly dominated the camcorder 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 $590 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 services. To some analysts, the decision to shutter Flip was an admission by Cisco that it made a mistake.

"Cisco was swayed by the sexiness of selling to the consumer," said Mo Koyfman, a principal at Spark Capital, a Boston venture capital firm. "They're not wired to do it themselves, so they do 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."

But the rapid rise, and now demise, of Flip is also a vivid illustration of the ferocious metabolism of the consumer marketplace

The New York Times

May 27, 2013

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

By HIROKO TABUCHI

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

But as Mr. Loeb pressures Sony executives to do more to revive 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 Jefferies delivered a harsh assessment of Sony's electronics business. "Electronics is its Achilles' heel and, in our view, it is worth zero," wrote Atul Goyal, consumer technology analyst for Jefferies, in the report, released this week.

"In our view, it needs to exit most electronics markets."

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 3-D displays, it so ha successful business is selling insurance. While it doesn't run this business in the United States or Europe money writing life, auto and medical policies in Japan.

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~~

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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

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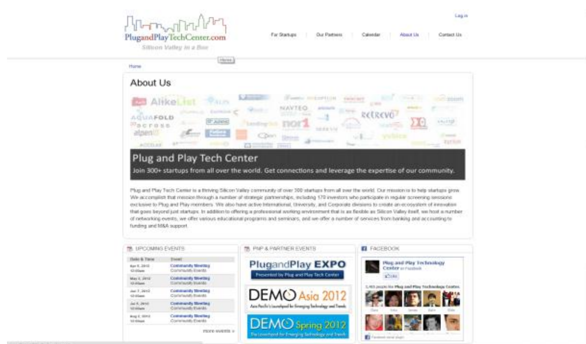
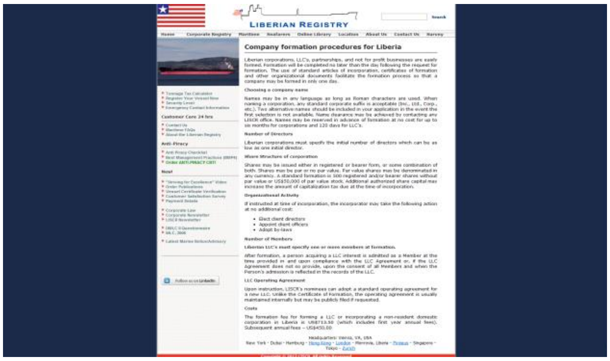
How-to guide for an instant startup, ca. 2014

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

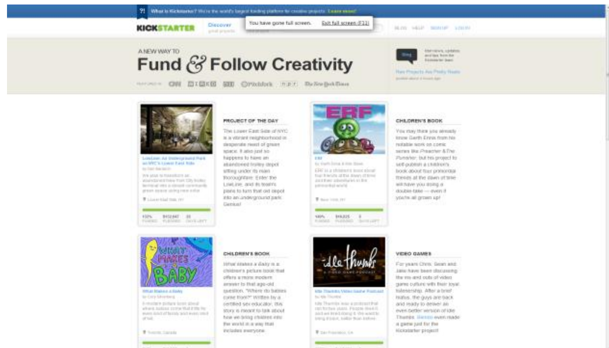
1. Rent a desk in a shared office



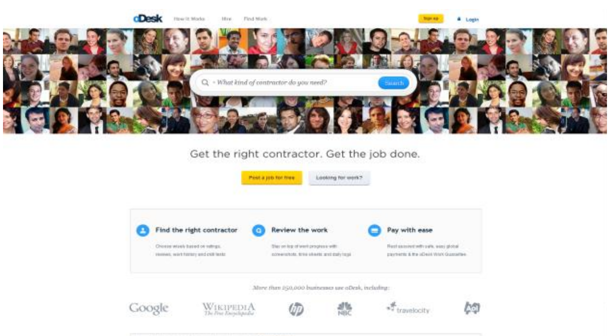
2. Incorporate online in Liberia for $713.50



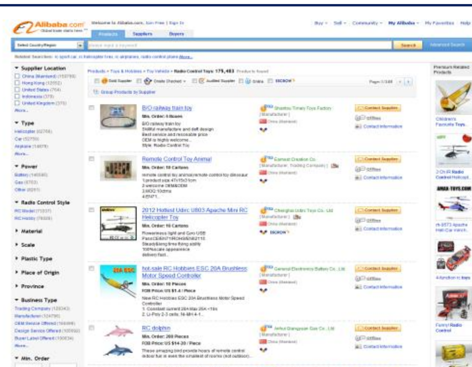
3. Crowdsource the funding at Kickstarter



4. Hire programmers for the app at oDesk



5. Find a drone manufacturer at Alibaba.com



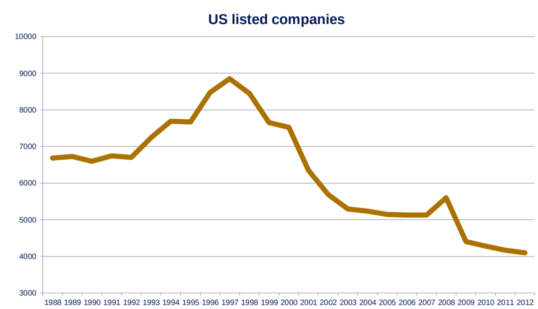
6. Set up a payment system at Square

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



Source: World Bank *World Development Indicators 2013*