The Coming Collapse of the Corporation (and what comes next)

Jerry Davis EGOS 3 July 2014



# Why we are here

- "The 2014 EGOS Colloquium will provide an opportunity for organizational scholars to reimagine, rethink, and reshape our scholarship in light of the deeply invasive period of stagnation and decline we currently face:
  - How can we ensure that the ways in which organizations generate profits and benefits contributing to human development today do not compromise or jeopardize the well-being of other societies or future generations?
  - What are the implications of the current economic and social challenges for the way we live, design our organizations, and support our society?
  - How can we change our ways as organizational scholars to stimulate organizational and societal reflexivity on these pressing themes more effectively?"

# How did we get from here...



1889-2012\*



~2007-2011

where do we go next?

...and

# The golden era of corporate society, 1950-1990

- "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



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

10 Largest US Corporate Employers, 1960-2010

<u>1960</u> GM	<u>1980</u>	<u>2010</u> WAL-MART	
GM AT&T FORD GE	AT&T GM FORD GE	WAL-MART TARGET UPS KROGER	Wal-Mart now employs roughly as many
US STEEL SEARS A&P	SEARS IBM ITT	SEARS HLDGS "AT&T" HOME DEPOT	Americans as the 20 largest manufacturers
EXXON BETH. STEEL ITT	KMART MOBIL GTE	WALGREEN VERIZON SUPERVALU	combined
Manufacturing	Oil Services		

SHE'S A PARTNER IN A GREAT AMERICAN BUSINESS

# 2. Corporate ownership is broadly dispersed

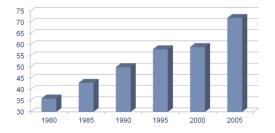
There was a time when the owners of corporations were dispersed "widows and orphans"



and and and

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Now widows and orphans buy mutual funds and ETFs...



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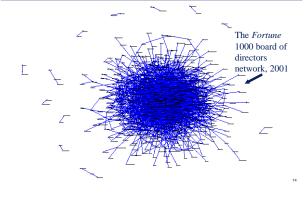
Source: Spo

Mean ownership by institutional investors of 1000 largest corporations

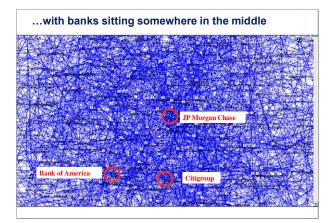
### ...and BlackRock is the largest shareholder of one in five US corporations

- BlackRock has \$4.3 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

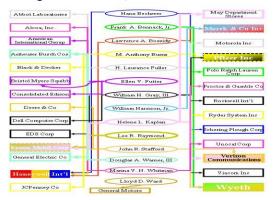
# From 1905 to ~ 2001, corporate elites formed a well-connected old boys' network via shared directors...



# 3. Corporate control is concentrated



### JP Morgan Chase board, 2001



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



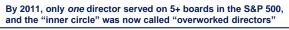








Source: Forbes (2002)





# Shareholder value and corporate strategy

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

#### 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

ara e

- 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



#### THE WALL STREET JOURNAL.

Tyson Wins Battle to Buy Hillshire All-Cash Offer of 863 a Share Values Firm Around \$7.7, Billion and Would Best Bid by Pfigrim's Pride



1926 Video Reliants pice the New Hards Smoon Constable with a look at the manifest, including a deal tableen Typicon and Hild hire that has captured Vial Steerts attention. Proto: Celep Fysion Roods Inc.: emerged as the winner in a battle to acquire Hildshere Brands Co., offering atmost a bation dollars more than rival Pligom's Prote Corp.'s bid last week for the maker of Jimmy ( Incremented

Tysion effered 953 in cash per share, according to people lamitiar with the matter, a bad that valued Hildhare at around 577 Leiton. The bid in nearly 51 billion more than Plagram's Probe, a unit of Brazilian metapacitog gat. 26, 552, detres for the company late week. Playm's set of the bidding was late last meth by making an unsolcied offer for the company. Tysion's new dhem properties a noughly Type premare the they calc Charges based Hildhare before the bidding ways.

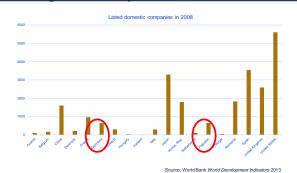
Ninning Hillshire would yout Springtale, Ak-based Tyson ahead in the company's long-running effort to build a business in branded meat products. Tyson is the bigget U.S. chicken processor and major processor of beef and pork.

Such packages meas generally carryingher proximages and the mean ryson sension and source one-sense operations, which accounts on a log parton or the company's sales. Hildshe's Jammy Team hand dominates reflore and headed sausace sales with nearly one-third of the market accounts in data from market research from R1 and its Ball Park brand leads to

# Whose management has created more value?



## Countries vary enormously in the prevalence of exchange-listed companies



Corporation ≠ organization: no fixed boundaries

#### THE WALL STREET JOURNAL

#### 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: chaming out low-priced flat-panel TVs.



Virio is a fraction the size of Sony and Samsung Ebertrenics Ca, both leads hrands in the U.S. flat panel market. Yet Virio shapped 12 at 36 of North markers is higher systal display or U.T. Dr.'s in the last quarter of accormentation from Supplic Cargo coverall. Virio's stable has complicated and in hillion that yet of provide the system of the system of the shallow has the yet from 50 could like in a good and size million in 2006 and successful to the closely held company.

The california comparison was compared to the set of a new business model in the fart-changing TV industry. Big Korsen and Agamese consumerelectronism nakers peak haps must developing and matarizating their own technology, creating a high barrier to entry for newcomes. 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 mimble 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, alsahing prices in the process.

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



The US economy is at an advanced

stage of Nike-fication

## Corporation ≠ organization: no fixed identity

ITHE WALL STREET JOURNAL.			
May 9, 2007	Poisonous pet chow containing melamine from China was made by an		
101 Brand Names, 1 Manufacturer	Ontario-based		
The Mass Pet-Food Recall Reveals a Widespread Practice: Many Competing Products Come From the Same Factory	manufacturer but sold under dozens of different		
By ELLEN BYRON May 9, 2007	US brand names.		
(See Corrections & Amplifications item below.)	The global OEM model is		
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.	not just for Nike anymore.		
Some owners were also startled to learn that dozens of competing brands, all made by the same company, Menu Foods Inc. of Ontario.	from discount to premium, are		

Menu has recalled more than 60 million cans of pet food under more than 100 brand names ranging from **Proter & Gamble** Co.'s lams and Eukanuba brands to Hill's Pet Nutrition Science Diet, owned by Colgate - Palmolier Co.'n co IF 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.

## Corporation ≠ organization: no fixed nationality

#### THE WALL STREET JOURNAL.

#### 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 Ld. said its board approved a plant 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," and Chairman and Chief Essentive William D. Green, adding that the company will benefit from Ireland's well developed corporate, legal and regulatory environment.

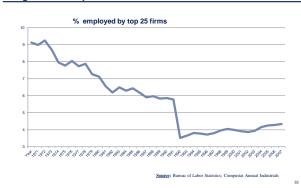
The technology outsourcing and management consulting company doesn't expect any material change in its operations, financial results or tax treatment as a result of the change.

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

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Custod Search	V & HOW BET & FORTHALL COMMUNICATION COMMUNI	INS. CONTREE CAUCO	IAS & BOISEWARES -	VIXO -	
Very Very Very Very Very Very Very Very		April Teams 423-000 Marine 2000 Ministry 20	Ary Ary Constant Consta	Provent	"Hermit crab organizations" maintain the brand but lose the people (e.g., Circuit City's 43,000 employees)
his forms manarity is 2 Norths Parts 2 Norths Laker Namark provided by Visio Ann Warrack Mile Ann Warrack Mile	The Vizio MS50NV 54.6" Razer LED Backit LCD ocrean! The Vizio MS50NV 54.6" Razer LED Backit LCD contrast ratio, bolh in will, VED Internet appe, a spects dysor-intening experience	HOTV Instance MI 1000a resolution, 1.8	Atdec Uttra Profile TV 60'	Thin Low Mount 30-	

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



#### The Dow Jones Industrials, 1987

Allied Chemical	Eastman Kouak	Owens-Illinois Clase
Alcoa	Exxon	Procter & Gamble
Amorican San	GE	Sears Roobuck
AT&T-	General Foods	Swift & Co
Amorican Tobacco	GM-	Texace-
Anaconda Gepper	Goodyear	Union Carbide
Bethlehem Steel	International Harvester	United Technologies
Chevron	International Nickel	U.S. Steer
Chrysler	International Paper	Westinghouse Electri
Du Pont	Johns Manville	Woolworth

= gone by 2013 \_\_\_\_ = really "SBC"

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#### For Flip Video Camera, Four Years From Hot Start-Up to Obsolete YN M. RUSLI

5. Corporations live a long time

By SAM GROBART and EVELYN M. RUSLI It was one of the great tech start-up su ess 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 sextiness 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 FIRONO FADOL H 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 h 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.

MORE IN BUSINE China's Fo Reach, Alı Read More >

# Some premises of the corporate-centered society

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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. Crowdsource the funding at Kickstarter



# 4. Hire programmers for the app at oDesk



# 5. Find a Chinese drone vendor at Alibaba.com



# 6. Set up a payment system at Square







# 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

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# NOW WHAT? AN INVENTORY

# Dramatically cheaper capital goods enable locavore production. (Take that, Braverman)



# 3D printing and the Web enable insta-replication of physical objects...



### ...whose designs can be shared and modified globally



# A local fabrication shop in every neighborhood?



# The "maker movement" is emerging in surprising places (like Detroit)...



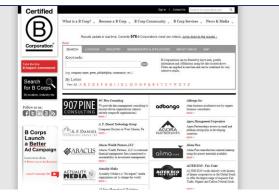
# ... and in surprising industries (like biotech)



Cooperatives have found a new life...in Cleveland



# New legal forms add to the mix of possibilities



# Collaborative consumption apps are widespread



### 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

"How can we change our ways as organizational scholars to stimulate organizational and societal reflexivity on these pressing themes more effectively?"

# How about "open source institutional design for economic democracy"?

