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

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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?”

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

Since January 2001, the US has shed 5 million jobs in manufacturing—\textemdash onethird.\footnote{Proportion of US private labor force employed in manufacturing and retail, 1939-2010 (Source: BLS)}

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

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

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."

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

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
3. Corporate control is concentrated

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

The Fortune 1000 board of directors network, 2001

...with banks sitting somewhere in the middle

JP Morgan Chase board, 2001

Who were the top 5 inner circle directors in 2001?

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](image-url)
Whose management has created more value?

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

- **Vizio**
  - 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

**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 nationality**

Accenture to Move Base To Ireland From Bermuda

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)

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

5. Corporations live a long time

The Dow Jones Industrials, 1987

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Current</th>
<th>Gone by 2013</th>
<th>Really “SBC”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied-Signal</td>
<td>Eastman Kodak</td>
<td>Owens-Illinois Glass</td>
<td></td>
</tr>
<tr>
<td>Alcoa</td>
<td>Exxon</td>
<td>Procter &amp; Gamble</td>
<td></td>
</tr>
<tr>
<td>American Can</td>
<td>GE</td>
<td>Sears, Roebuck</td>
<td></td>
</tr>
<tr>
<td>Atlantic Richfield</td>
<td>General Foods</td>
<td>Sears &amp; Roebuck</td>
<td></td>
</tr>
<tr>
<td>American Tobacco</td>
<td>CIR</td>
<td>Sanetta</td>
<td></td>
</tr>
<tr>
<td>Anderson-Capper</td>
<td>Goodyear</td>
<td>Union Carbide</td>
<td></td>
</tr>
<tr>
<td>Bethlehem Steel</td>
<td>International Harvester</td>
<td>United Technologies</td>
<td></td>
</tr>
<tr>
<td>Chevron</td>
<td>International Nickel</td>
<td>U.S. Steel</td>
<td></td>
</tr>
<tr>
<td>Chesebrough-Pond’s</td>
<td>International Harvester</td>
<td>United Technologies</td>
<td></td>
</tr>
<tr>
<td>Du Pont</td>
<td>J. Walter Thompson</td>
<td>Westinghouse Electric</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics; Compustat Annual Industrials

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

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 a garage's department store in San Francisco, went on sale in 2005, 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 closed out and sold to Cisco Systems, the computer networking giant, for $500 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 seized by the sentiment of selling to the consumer," said Mr. Ferrara, a principal at Spark Capital, a Boston venture capital firm. "They’re not used to doing 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."

But the rapid rise, and now decline, of Flip is also a civic illustration of the fickle nature of the consumer marketplace.
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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

2. Incorporate online in Liberia for $713.50

3. Crowdsourcing 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

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

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 20th century: the integrated corporation (e.g., General Motors)

- The turn of the 21st century: the iPhone “workplace democracy app” that turns GM into a kibbutz

How about “open source institutional design for economic democracy”?

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