

Corporate innovation will not save us in a shareholder value economy

Jerry Davis

“US corporations in the recovery and beyond”

April 23, 2010

MICHIGAN 

ROSS SCHOOL OF BUSINESS



April 18, 2010

OP-ED COLUMNIST

Just Doing It

By [THOMAS L. FRIEDMAN](#)

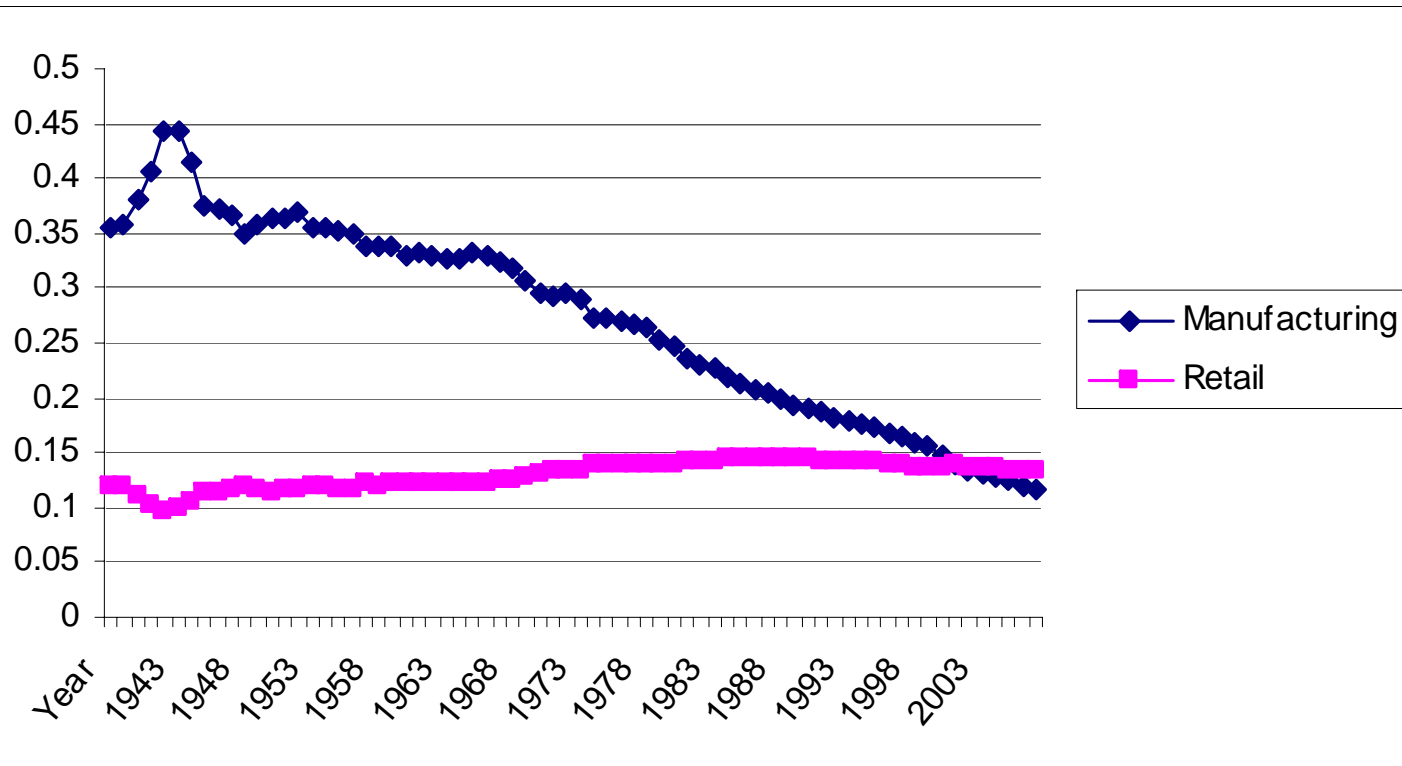
St. Louis

You've heard that saying: As General Motors goes, so goes America. Thank goodness that is no longer true. I mean, I wish the new G.M. well, but our economic future is no longer tied to its fate. No, my new motto is: As EndoStim goes, so goes America.

EndoStim is a little start-up I was introduced to on a recent visit to St. Louis. The company is developing a proprietary implantable medical device to treat acid reflux. I have no idea if the product will succeed in the marketplace. It's still in testing. What really interests me about EndoStim is how the company was formed and is being run today. It is the epitome of the new kind of start-ups we need to propel our economy: a mix of new immigrants, using old money to innovate in a flat world.

Here's the short version: EndoStim was inspired by Cuban and Indian immigrants to America and funded by St. Louis venture capitalists. Its prototype is being manufactured in Uruguay, with the help of Israeli engineers and constant feedback from doctors in India and Chile. Oh, and the C.E.O. is a South African, who was educated at the Sorbonne, but lives in Missouri and California, and his head office is basically a BlackBerry. **While rescuing General Motors will save some old jobs, only by spawning thousands of EndoStims — thousands — will we generate the kind of good new jobs to keep raising our standard of living.**

The US is experiencing the last gasp of de-industrialization



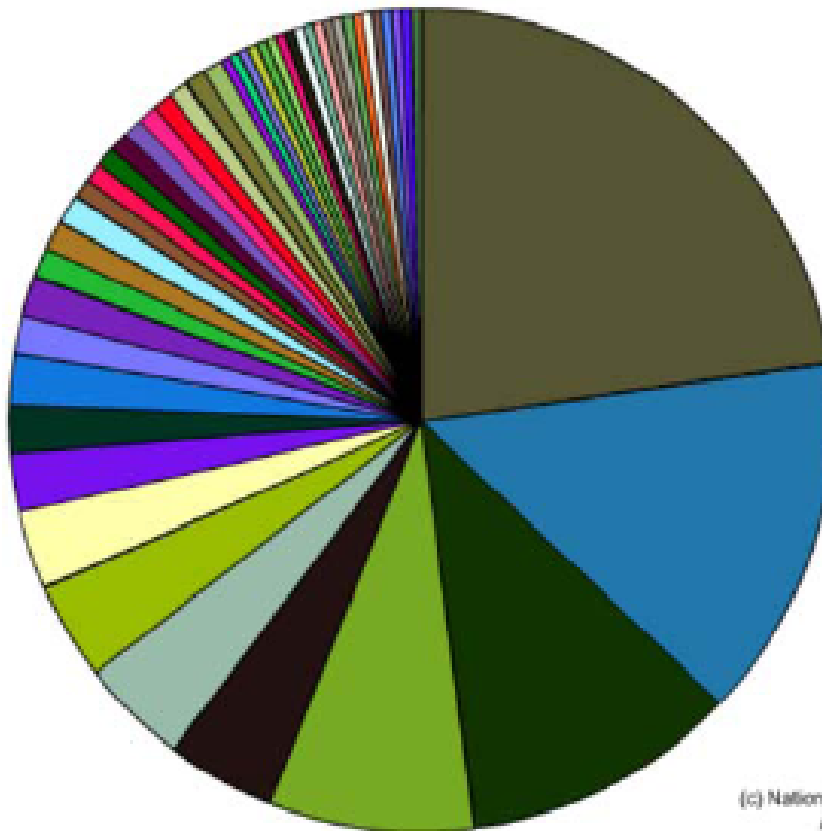
Proportion of US private labor force employed in manufacturing and retail, 1939-2008 (Source: BLS)

Since January 2001, the US has shed 5.7 million jobs in manufacturing—one in three

As of March 2009, more Americans were unemployed than were employed in manufacturing

The US still leads in manufacturing value-added...

US global share of value added in manufacturing



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<input type="checkbox"/>	United States	22.4%
<input type="checkbox"/>	Japan	13.9%
<input type="checkbox"/>	China	10.8%
<input type="checkbox"/>	Germany	8.2%
<input type="checkbox"/>	Italy	4.2%
<input type="checkbox"/>	United Kingdom	4.1%
<input type="checkbox"/>	France	3.7%
<input type="checkbox"/>	Korea, South	2.9%
<input type="checkbox"/>	Spain	2.2%
<input type="checkbox"/>	Mexico	1.8%
<input type="checkbox"/>	Canada	1.7%
<input type="checkbox"/>	Russia	1.7%
<input type="checkbox"/>	India	1.7%
<input type="checkbox"/>	Indonesia	1.2%
<input type="checkbox"/>	Netherlands	1.1%
<input type="checkbox"/>	Australia	1.1%
<input type="checkbox"/>	Thailand	0.9%
<input type="checkbox"/>	Switzerland	0.9%
<input type="checkbox"/>	Belgium	0.8%
<input type="checkbox"/>	Austria	0.8%

...it just doesn't require employees to do it (cf. agriculture)

THE WALL STREET JOURNAL

WSJ.com

CAREERS | MARCH 9, 2009

Lean Factories Find It Hard to Cut Jobs Even in a Slump

By TIMOTHY AEPPEL and JUSTIN LAHART

SPARTANBURG, S.C. -- At a factory here that churns out plastic parts for everything from spray cans to blasting caps, laying off just one worker can be more trouble than it's worth.

The plant, owned by Cleveland-based [Parker Hannifin Corp.](#), has become so lean over the past decade that many assembly lines run with only a handful of highly trained workers.

So while mass layoffs have driven the U.S. unemployment rate to its highest in 26 years, Parker and other companies like it are responding to the slump in more surgical ways, mainly by cutting hours and shedding temporary workers.

"Because of productivity gains, every one of my people carries more dollars in sales today," says Donald Washkewicz, Parker's chief executive. In 2000, the average Parker worker represented about \$125,000 a year in sales. Today, that figure tops \$200,000. "If I need to cut back, I have to cut back fewer people to achieve the same goal."

Similar trims are taking place at each of Parker's nearly 300 factories. And to varying degrees, this is happening at thousands of other large and small factories across the U.S.

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

1960

GM

AT&T

FORD

GE

US STEEL

SEARS

A&P

EXXON

BETH. STEEL

ITT

1980

AT&T

GM

FORD

GE

SEARS

IBM

ITT

KMART

MOBIL

GTE

2009

WAL-MART

TARGET

UPS

KROGER

SEARS HLDGS

“AT&T”

HOME DEPOT

WALGREEN

VERIZON

SUPERVALU

Wal-Mart now employs roughly as many Americans as the 20 largest manufacturers combined

Manufacturing **Oil** **Services**

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



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 brand names.

The global OEM model is not just for Nike anymore.

April 22, 2008

U.S. Identifies Tainted Heparin in 11 Countries

By [GARDINER HARRIS](#)

WASHINGTON — A contaminated blood thinner from China has been found in drug supplies in 11 countries, and federal officials said Monday they had discovered a clear link between the contaminant and severe reactions now associated with 81 deaths in the United States.

But a Chinese official disputed the assertion that the contaminant found in the drug, heparin, caused any deaths and insisted that his country's inspectors be allowed to inspect the American plant where the finished heparin vials were made. He said any future agreement to allow American inspections of Chinese firms should be reciprocal.

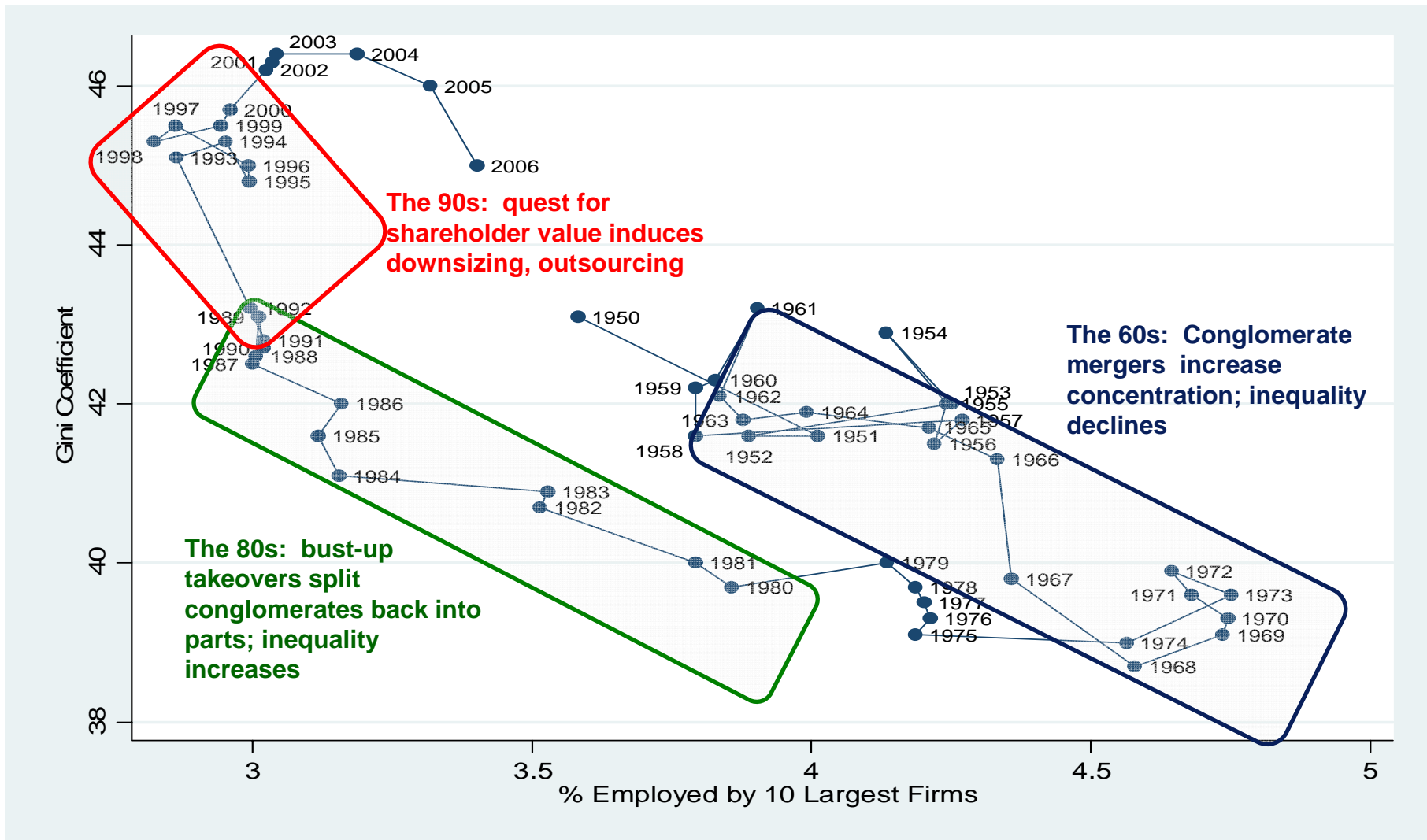
"We don't have a strong evidence to show that it is heparin or its contaminant that caused the problem," said the official, Ning Chen, second secretary at the Chinese Embassy.

Mr. Chen said that illnesses associated with contaminated heparin had occurred only in the United States, which he said suggested that the problem arose in this country.

Dr. Janet Woodcock, director of the [Food and Drug Administration](#)'s drug center, said that German regulators uncovered a cluster of illnesses among [dialysis](#) patients who took contaminated heparin. She said Chinese officials had conceded that heparin produced in their country contained a contaminant, though they say it was not connected to the illnesses.

"Heparin should not be contaminated, regardless of whether or not that contamination caused acute adverse events," Dr. Woodcock said. "We are fairly confident based on the biological information that we have had that this contaminant is capable of triggering these adverse reactions."

Disaggregated employment increases inequality



Innovation has become detached from employment

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.

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

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.

Apple to the Rescue?

Why President Obama should meditate on the career of Steve Jobs.

By RICH KARLGAARD

The seven-year drizzle of bad news had nearly destroyed American confidence. By Dec. 12, 1980, the prime-lending rate in the U.S. was up to 20.5%. One week later it would peak at 21.5%, the highest in U.S. history. In newly militant Iran, 52 Americans were enduring their 405th day of captivity. The hapless Jimmy Carter had 39 days to go in his presidency. But in truth Mr. Carter's presidency had failed 17 months earlier on 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 blast of fresh air preceded Ronald Reagan's presidency on Dec. 12, 1980, in the form of a thriller public stock offering, the largest since Ford Motor'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 spiked to nearly \$100 on day two and created more than 300 millionaire employees. Founders Steve Jobs and Steve Wozniak were instantly rich. The great American renaissance—ignited by technology, entrepreneurs and a capital gains tax rate recently reduced to 28% from 49%—had begun.

Mr. Obama and his advisers need to grasp this essential fact: Entrepreneurs are not just a cute little subsector of the American economy. They are the whole game. **They will give us tomorrow's Apples and the multiplier effect of small businesses and exciting 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 1970s forced a managerial revolution in large companies during the 1980s and 1990s. Without Steve Jobs, there would have been no Lou Gerstner to reinvent IBM in the '90s. Entrepreneurs like Steve Jobs make everyone better.

Analysts Expect iPad to Give lift to Asian Suppliers

By AARON BACK, JUNG-AH LEE And CHARMIAN KOK

Apple Inc.'s iPad device may significantly increase demand for components such as touch screens and memory chips, especially if it succeeds in creating a new product category and spawning competitors, according to industry analysts.

Analysts say that would be a boon to Asian suppliers, including display makers such as LG Display Co.; chip makers such as Samsung Electronics Co. and Toshiba Corp.; touch-screen makers Wintek Corp. and Sintek Photronic Corp.; and assemblers such as Hon Hai Precision Industry Co., which uses the trade name Foxconn. Shares of these companies all rose Thursday in Asia.

Apple hasn't identified its iPad suppliers and an Apple spokeswoman declined to comment.

Like many technology brands, Apple doesn't actually manufacture most of its products. It hires manufacturing specialists—mainly Taiwanese companies that have extensive operations in China—to assemble its gadgets based on Apple's designs. They, in turn, use parts from large and small manufacturers many in Taiwan, Japan and Korea.

The iPod and iPhone devices have already been a boon to component manufacturers in Asia, and many are hoping for a repeat performance.

The true component mix won't be known until Apple begins shipping the device and third-party analysts can

Apple suppliers in Asia

NAND flash memory:

- Samsung Electronics (South Korea)
- Toshiba (Japan)

LCD displays:

- LG Display (South Korea)
- Innolux Display (Taiwan)

Assembler:

- Hon Hai Precision Industry (Taiwan)

Touch-screen technology:

- Wintek (Taiwan)
- Sintek Photronic (Taiwan)

Source: Analysts

America's most innovative companies employ few people

- Apple: 34,300
- Google: 19,835
- Intel: 79,800 [44,000 US]
- Amazon.com: 24,300
- Cisco: 65,550 [37,050 US]
- Microsoft: 93,000 [56,000 US]
- Kroger: 334,000 [all US]
- **Jobs lost in 1/08: 598,000**
[That's 17.43 Apples]

TOTAL: 316,785 [215,485 US]

Conclusion

- The “shareholder value” economy has re-organized corporations into dispersed, re-configurable components
- Disaggregation of employment has greatly increased income inequality
- Innovation (e.g., the creation of new products) has become detached from employment within the US
- Corporate governance reforms aimed at boosting shareholder influence will not create jobs

We are here

