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By **Gerald F. Davis**

Is the public corporation obsolete in the US?

Suppose you wanted to start an enterprise right now without leaving your couch. Is that possible? If you have internet access and a credit card, it is. Imagine a hypothetical product: the iPhone Remote Drone Assassin App. The app would allow users to control weaponized drones for classified operations. The market for the product would include government contractors of various types, as well as freelance operators. The first step is to rent a virtual space at a legitimate-sounding address, preferably in Silicon Valley (to convey high-tech street cred). Next, incorporate online in Liberia, the legal home to many legitimate companies like Miami-based Royal Caribbean Cruise Lines. It's easy and quick, and may have certain unspecified advantages when tax time comes.

What about funding? Thanks to the "JOBS Act" of 2012, finding investors online is easy, through various crowdfunding sites. Contract programmers to write the app can be hired via Upwork. A manufacturer for the drone itself can almost certainly be secured at Alibaba.com, which includes a vast selection of remote control aircraft vendors in China. Square is a user-friendly payments company that allows anyone with a smartphone or tablet computer to accept credit card payments. Finally, Shipwire will pick up the products from the dock in California, warehouse them, and distribute them to users. With a few clicks, you can be an entrepreneur.

This scenario is not entirely fanciful. Michael Dell famously started a computer company in his Texas dorm room, and ultimately grew it to be the best-selling brand in the US, using off-the-shelf parts. Today, almost anyone can create an enterprise without leaving their dorm room, as the barriers to entry have collapsed in industry after industry. The economies of scale that gave birth to the modern corporation have disappeared in many sectors; in others, large-scale generic producers are happy to serve anyone, whether their product is tomato sauce, pharmaceuticals, or flat screen televisions. Lightweight entrants can scale up or down rapidly by renting rather than buying capacity, and their low cost means that in many domains they are a superior choice.

Easy entry is great news for entrepreneurs, but creates an existential threat to traditional corporations and their employees. The cost of being a pop-up business keeps going down, while the cost of being a public corporation, with all its obligations and liabilities, keeps going up. This is a big part of the reason that public corporations are vanishing in the US.

The pop-up company

Vizio grew to be the best-selling brand of LCD televisions in the US by 2007, beating Samsung and far outpacing Sony, by offering low-cost TVs assembled by a Taiwanese partner and sold through big-box retailers like Costco. Just as Michael Dell realized that PCs were composed of off-the-shelf components with a superfluous brand name, Vizio's founder recognized that anybody could make a flat-screen TV, and the lowest-cost producer with the best distribution would win. Unlike Dell, however, Vizio chose not to invest in assets or employees: it had fewer than 200 workers when it surpassed Sony, and even today, as it has expanded into sound equipment and laptop computers, it has only 400 employees – about as many as a typical Walmart superstore.

The Flip video camera also grew rapidly from its invention in 2007 to 2009, when it had become a must-have accessory for millennials. With just 100 employees, it had the largest market share in its industry segment thanks to its clever design and marketing. Cisco bought the company in 2009; two years later, it was closed because Flip was obsolete: many people who would buy a Flip already had a smartphone that could do much the same thing. Flip was the corporate equivalent of a pop-up restaurant. At four years from birth to market dominance to obsolescence, Flip was much more efficient than Eastman Kodak, which took well over a century and tens of thousands of career employees to follow this same trajectory.

Compare Vizio and Flip with their better-known competitor, Sony. Sony is one of the most storied brand names in history, known around the globe for products like the Walkman and the Trinitron television. But with 150,000 employees, billions in assets, and expensive real estate in Tokyo, Sony is costly to maintain, and has lost many billions in its electronic business. (It fares much better in life insurance, movies, and music.) A chorus of financial analysts has urged the company to quit the electronics industry entirely. As one analyst put it in 2013, "Electronics is its

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Achilles' heel, and in our view, it is worth zero...In our view, it needs to exit most electronics markets." Shortly after this report, Sony sold its personal computer business and exiled its television business to a subsidiary. Sony was fitfully exiting the electronics business, just as its analysts asked.

But the music business faces the same form of lightweight competition. Stockholm's X5 Music Group, with just 43 employees, produced 13 of the top 50 selling classical albums in 2010 – about the same as Universal, the industry's heavyweight. The company licenses the rights to performances owned by smaller classical music labels and virtually "packages" them into compilations for sale online via iTunes and Amazon. With no need for physical product, the company can be radically tiny yet large in its impact. And unlike Sony and Universal, it does not require corporate jets or skyscrapers or costly employee benefits.

Similarly, whereas Blockbuster had 83,000 employees and 9,000 physical stors at its height, Netflix today has only 4,700 employees (of which 1,300 are temps) and rents server capacity from Amazon. The ability to rent assets and use contract employees allows firms to be tiny and nimble, yet large in impact.

A corporation was once a social institution, with a mission and members and boundaries that separated the inside from the outside. Today it is more like a web page. What do I mean by this? Right-click on a web page and choose "View page source." The pleasing coherence of the visual design you saw is replaced by pages of unreadable code. Much of the code is essentially instructions that say "Go to the database located at the following address and pull an image from here to place in the following location; go to this other database and pull some text from there." It is a series of calls on outside resources that are brought together just in time to convey the image that you see. Vizio, Flip, and scores of other contemporary enterprises are a lot like this: not an enduring social institution with members and obligations, but a webpage.

The high cost of being a corporation

It is useful to recall why we had corporations in the first place. Corporations were created to pursue ventures that required investments that would be too big or too risky to be financed by individuals and families on their own. In the US, the prototypical corporation in the 19th century was the railroad, and later the large manufacturer. These enterprises required funds for tangible long-lived assets like land, plant, and equipment. The corporation was a good way to finance enterprises characterized by economies of scale. If the cheapest way to make cars is on a giant assembly line in Detroit employing thousands of people, and to ship them from there to the rest of the country, then it makes sense to form a corporation and issue shares to the public.

Raising capital on public markets imposes a set of requirements for accountability and transparency. Investors need some assurance that they will get their money back. Public companies need to issue quarterly and annual reports explaining what the company does, who is running it, and how it is doing, all vetted by outside accountants. Public corporations are also required to disclose things like who is on the board and their qualifications and other commitments; how much executives are paid; what risks the company faces; how its labor relations fare; and more. These disclosures are intended to make it easier for investors to assess whether it is sensible to invest in a company, and what it might be worth.

Share price performance is no longer enough to fend off activists: even Apple, the world's most valuable corporation, was targeted due to its oversize cash hoard. If Apple can't keep its shareholders happy, then no one is immune to shareholder activism

Corporations also face regulations that other forms of business do not. In the US, corporations are chartered by the states, not the federal government. As a result, when Congress wants to shape business behavior, it often does so through securities regulations. When Congress wanted companies to stop paying bribes in other countries, it passed the Foreign Corrupt Practices Act of 1977, which made it "unlawful for an issuer of securities...to make certain payments to foreign officials and other foreign persons..." Similarly, the Dodd-Frank Act required US-listed companies to disclose if they are using conflict minerals from Congo in their products – which applied to Hewlett-Packard (a public company) but not Dell (which had gone private).

Other costs of being a public corporation are implicit. The public expects things of corporations: safe products, fair wages, decent employee benefits, ethical supply chains, social responsibility. When corporations fail to live up to these expectations, their required disclosures are a gold mine of information for journalists and activists who want to hold them to account. Anyone can look up the compensation packages of the top five corporate executives of any listed company, which provides fodder for endless articles about overpaid CEOs. Now try to find the same information about Koch Industries, which is privately owned.

Social activists also find it much easier to target listed corporations than other kinds of businesses. In 2015, ExxonMobil faced a raft of climate-related shareholder proposals: to adopt greenhouse gas reduction targets; to distribute capital to shareholders rather than spend it on capital investments in carbon-intensive projects; to appoint a director with expertise in climate change and renewable energy; to link executive compensation to sustainability performance; and to report on efforts to reduce the adverse effects of fracking. On the other hand, private companies in the oil business, such as Koch Industries, have no worries about divestment or activist investors.

Finally, beyond the demands of regulators and the scrutiny of media and social movements, public corporations today face unprecedented levels of activism by hedge funds demanding changes in personnel, finances, and strategy. *The Economist* reported in 2015 that 15% of the S&P500 had been targeted by activist campaigns since 2009. "Since 2011 activists have helped depose the CEOs of Procter & Gamble and Microsoft, and fought for the break up of Motorola, eBay and Yahoo... They have won board seats at PepsiCo, orchestrated a huge round of consolidation across the pharmaceutical industry, and taken on Dow Chemicals and DuPont." Their demands typically include some combination of a board seat, a new CEO, a bustup, and/or a share buyback. Share price performance is no longer enough to fend off activists: even Apple, the world's most valuable corporation, was targeted due to its oversize cash hoard. If Apple can't keep its shareholders happy, then no one is immune to shareholder activism.

1962	1972	1982	1992	2002	2012
Company **Employees**	*Company* **Employees**	*Company* **Employees**	*Company* **Employees**	*Company* **Employees**	*Company* **Employees**
AT&T **564**	IBM **262**	IBM **365**	Exxon **95**	Microsoft **51**	Apple **76**
GM **605**	AT&T **778**	AT&T **822**	Walmart **434**	GE **315**	Exxon **77**
Exxon **150**	Eastman Kodak **115**	Exxon **173**	GE **231**	Exxon **93**	Microsoft **94**
DuPont **101**	GM **760**	GE **67**	Philip Morris **161**	Walmart **1400**	Google **54**
IBM **81**	Exxon **141**	GM **657**	AT&T **313**	Pfizer **98**	Walmart **2200**

Table 1:
Five US corporations with the largest market capitalization and the size of their workforces (in thousands), 1962-2012

80k

In 2015, Facebook had 1.35 billion users, but only 9,199 employees. Twitter had 288 million monthly users, and 3,638 employees. Dropbox had over 300 million users, and 971 employees. Zynga, 1,974 employees. Zillow, 1,215. LinkedIn, 6,897. Uber, perhaps 2,000. Square, 1,000. Google was a bit bigger, with 53,600 employees around the world. But the combined global workforces of all of these companies put together was still just 80,000 – less than Blockbuster had in 2005, or the number of new employees GM hired in 1942 alone

What is a "large" corporation?

One of the most visible consequences in the shift from corporation to popup is in the employment practices of the newest companies. For most of the post-war era, the biggest corporations tended to be large in revenues, employment, assets, and market capitalization. Today, these different aspects of "size" are no longer necessarily linked. Walmart is huge in revenues, employment, and market capitalization. General Motors and Kroger are large in revenues and employment but modest in market cap. Facebook is large in market cap, small in revenues, and tiny in employment.

Table 1 shows the five corporations with the largest stock market values and the size of their workforce from 1962 to 2012. Observe that for most of this period, the most valuable corporations were also very large-scale employers, offering relatively secure employment and opportunities to climb a career ladder. By 2012, however, only Walmart had more than 100,000 employees among the top five in market value, and the career ladder it offers to most employees is more of a step-stool. Walmart is the largest private employer in the US, Canada, and Mexico. In the US, Walmart has more workers than the dozen largest manufacturers combined. It also has very high turnover, and a large proportion of its workforce is part-time, in sharp contrast to the large-scale employers of the past.

Now consider the best-known companies in the high tech economy since 2000. How many people do you know that actually work for any of these companies? Unless you live in Palo Alto, the answer is likely to be "None." (If you know someone who claims to work for these companies, odds are good that they are a contractor, not an employee.) In 2015, Facebook had 1.35 billion users, but only 9,199 employees. Twitter had 288 million monthly users, and 3,638 employees. Dropbox had over 300 million users, and 971 employees. Zynga, 1,974 employees. Zillow, 1,215. LinkedIn, 6,897. Uber, perhaps 2,000. Square, 1,000. Of course, Google – the paradigmatic corporation of the 21st century – was a bit bigger, with 53,600 employees around the world. But the combined global workforces of all of these companies put together was still just 80,000 – less than Blockbuster had in 2005, or the number of new employees GM hired in 1942 alone.

We might reasonably ask: Is Facebook a "large corporation"? With a market capitalization of over $400 billion, Facebook seems like a major corporation, and its name is familiar to everyone. Yet hardly anyone actually works there, and in spite of the mythology of the "app economy," hardly anybody makes a living writing apps either. And with only $12.5 billion in revenues in 2014, Facebook was only at about the middle of the *Fortune 500*.

Technological changes and the rise of generic service providers make it easier than ever to snap together an enterprise today. But for traditional corporations, with careers and benefits, the result is an existential threat that is re-shaping the corporate landscape in the US.

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