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Markets, Globalization & Development Review



Book Review

Gerald Davis, The Vanishing American Corporation (2016)

The United States is facing a changing marketscape where the status-quo-conventional corporations, with layers of employees, appear not to be the business model of the future and full-time employment could be replaced with contract workers to complete subdivided tasks based on consumer demand. Are these changes on how to conduct business – often called the gig economy (Brown 2009; Chen and Sheldon 2015; Friedman 2014; Olen 2013; Reimers-Hild 2014) – good for the consumer? Is this a short-term trend which will peter out and we will revert back to conventional business models? Can we expect other markets globally to follow the American trend of gig work? University of Michigan Professor Gerald F. Davis examines these issues in this 2016 book. Davis is well known in his field as an interdisciplinary researcher and expert on the topics of corporate governance and forms of organizations through his academic publications. This makes him well qualified to give a history of corporations, insights into the changing organizational structures, and predictions on a new task-focused workforce.

Since the early twentieth century, the common business practice was to create a corporation which revolved around mass production and distribution. Davis does a good job explaining in the first few chapters about the history of American corporations and how they came to be. With demand exceeding supply throughout early modern industrialization, products were produced as quickly as possible using this mass production corporation model. During this phase we observed massive assembly plants with thousands of workers repeating the same tasks as the product moved down the assembly line to be a completed product. The first to do this was Henry Ford mass producing automobiles, more specifically the Model T. On December 1, 1913 Ford installed the first moving assembly line which reduced the production time per car from approximately twelve hours to two and a half hours. The assembly line continued to evolve resulting in automobiles being produced even more quickly. This brought about additional benefits of higher profit margins resulting in workers receiving higher wages which led to lower employee turnover (Comin and Mulani 2009; Drucker 1999; Nye 2013).

Over time the consumer market has changed with increased competition providing multiple brands flooding the market including multiple versions of the same product in different varieties of packaging,

size, shape, quantity, and brand variants. According to Davis, we have reached a stage where this business model is under threat. Citing several influencing factors, Davis argues corporations, of the conventional type, are disappearing. One influencing factor in the disappearance of corporations is Nikefication, which consists of the disassembling of corporations into their components. Instead of a corporation having many costly employees running all aspects of the supply chain, these tasks can be outsourced to other firms who specialize in these activities, which cuts down on organization costs and speeds up the overall production process. Sometimes this outsourcing entails offshoring, which is the relocation of a firm's processes somewhere overseas.

Nikefication can have consequences, both positive and negative, in our global marketplace. With the outsourcing of processes to other firms, American firms are often outsourcing labor-intensive tasks to other firms in other countries. This results in fewer jobs available in the United States and higher unemployment levels, but opens up employment opportunities for workers in emerging markets. These opportunities afford consumers in these new marketplaces opportunities to have greater disposable incomes leading to purchase of more consumer products, many of which carry American brand names.

Issues can come up with Nikefication when tasks are outsourced to other firms and monitoring their hiring and working conditions may be difficult. In recent years, Nike has been accused of using sweatshops for the production of their apparel and footwear products. Nike has denied these claims and argued they have no control over sub-contracted firms that are a part of the production process. Some consumers may not believe this argument and might not have faith in some of the steps Nike has taken to prevent similar situations from occurring. Consumers have responded through boycotts, protests, and even hunger strikes (Sage 1999). One consumer wanted to highlight these labor issues by ordering a custom pair of Nike's with the word "sweatshop" embroidered on them. Nike refused to allow the consumer to personalize the shoes in this way, which led to the incident gaining some publicity in the public eye (Farrey 2001). Over the years Nike has since attempted to fix these issues and flaws pertaining to their allegedly poor labor practices (Nisen 2013). Although in the Nike example some consumers were enraged with poor labor practices, in many instances consumers may be unaware of how many subcontractors are involved in making a complex product like an automobile or even an everyday low priced product like a t-shirt.

Problems with Nikefication have caused some corporations to question this strategy. A somewhat recent trend is some firms 'reshoring'

(also called backshoring, inshoring, or onshoring), which entails reintroducing domestic United States production (Dholakia, Kompella and Hales 2012). Reshoring Initiative, for example, is a non-profit organization whose mission “is to bring good, well-paying manufacturing jobs back to the United States by assisting companies to more accurately assess their total cost of offshoring, and shift collective thinking from offshoring is cheaper to local reduces the total cost of ownership...” (for more details, see Booker and Kargbo 2016 for an interview with Harry Moser, founder of Reshoring Initiative).

In addition to Nikefication, we are observing a new shift in what it means to be an employee: Davis dubs this Uberization. Previously, workers had a skill or craft that ensured a lifelong career. The career was in a particular industry, and frequently with the same company. This was beneficial to the organization because they did not have to retrain many new employees and the current employees were able to grow within the organization and receive benefits packages like a pension to reward them for working with the same employer for decades. This has shifted in recent times. Careers have turned into jobs where employees are now seen to have set responsibilities, but no longer loyal to one particular organization. Instead, it has become commonplace for people to have worked for several employers over their lifetime in multiple industries and sometimes start a second or third career in a completely different field. A recent *Forbes* article found the average worker stays at their job for 4.4 years and millennials are even more likely to job hop, with 91% in a recent survey claiming they expect to stay in a job for less than three years (Meister 2012). Uberization takes this to another level. These new forms of corporations are minimizing the number of employees working for them. Instead, they hire contractors to work temporary tasks that appear on demand. The potential tasks are created when there is demand in the marketplace and the labor-providers – recast now as independent contractors rather than workers – can opt into completing these tasks at their preference. With advances in computing power, firms can tap into workforce management systems to outsource these tasks to potential workers (Davis 2016). Instead of having employees always on the organizational payroll, even during times of low demand, the new Uber-like corporations like Airbnb, Amazon Mechanical Turk, Lyft, and others are choosing to only have the labor available when tasks need to be completed.

Davis also notes it is becoming easier for individuals to start their own firm virtually. All of the forms and information are readily available now online to start a business. Individuals can literally start their business

in one day and work from any location with an internet connection. For these new entrepreneurs starting their new businesses, a new firm classification has been created. Fewer firms are becoming corporations. Instead, many are being created as LLCs (Limited Liability Companies). There are some benefits to being listed as an LLC instead of a corporation; LLCs have a less formal management structure and are not taxed at the business level. As a result, more entrepreneurs are classifying their firms as LLCs rather than corporations.

One factor Davis does not consider as relevant for these organizational shifts is the supply chain movement eliminating waste of economic resources in the production process, making firms more profitable. Supply exceeding demand for most products has resulted in corporations forcing themselves to shift their focus from mass production to lean production where operations and supply chain managers attempt to cut waste out of the process leading up to consumption by the consumer. Dr. Edward Deming was one of the innovators of this lean production approach. He established fourteen principles – based on statistics, psychology and other disciplines – to make operations more efficient, dubbed the ‘total quality movement’. While consulting with the automotive manufacturer Toyota, Deming was able to apply these theories and principles to a manufacturing environment confirming this to be a successful business model in a marketplace where supply exceeds demand (Liker 2004). Since his time with Toyota, Deming gave talks to managers and executives from a number of industries globally to apply these lean principles. With operations no longer geared to produce as much product as possible, managers instead are focused on reducing waste, which should in turn increase quality and reduce costs.

Waste can entail a number of things in the manufacturing process involving inefficient or unessential activities, movements, processes, and even labor. Davis gives examples throughout the text about how virtual corporations are being created to replace the current form of corporations and how many employers are now cutting out employees from their manufacturing processes. Instead, we are seeing full-time employees being replaced with part-time workers, temporary jobs, or contracted personnel. This was highlighted at first by ‘careers’ turning into ‘jobs,’ which are now turning into ‘tasks.’ Nikefication and Uberization are prime examples of these change processes and signal how corporations are becoming obsolete in the United States. This trend will likely spread to other global markets.

These are unique and interesting changes occurring in our current marketplace. Davis suggests these changes could result in some

significant changes in the future. He paints both a pessimistic and positive picture of potential outcomes. Although Davis points to these extremes, presumably to encourage avoiding the negative outcomes and formulate policies favoring the positive outcomes, one could argue that the future will likely be somewhere between these two points. Several symptoms he observes in the current marketplace contribute to his forecast of proximate future.

Previously firms were considered safe, steady institutions providing economic as well as social benefits to their members. This included things like healthcare and retirement benefits. We are now seeing a shift to working people being provided these services from the government or having to purchase them individually, or to forgo the social benefits altogether (Hacker 2006).

In addition to providing social benefits, corporations also provided an opportunity for one to have a structured way to advance within the organization. Davis argues this is no longer the case with corporations disappearing. Now individual career success may be more serendipitous in nature, with successful individuals just being at the right place at the right time. Previously there was a clear progression from the entry-level position to a middle level manager, and finally – for the capable and/or lucky few – to a senior level management role. With organizations eliminating these career paths, labor providers may be forced to move strategically from one organization to another. Davis refers to this as the children's game "Chutes and Ladders" giving examples of individuals choosing a well-respected major in college, getting a job at an established organization, and then training their work replacements, leaving themselves unemployed and out of work. Others – the lucky exceptional few – drop out of school, start their own businesses, and then become billionaires. These may not be the only two routes for individuals to take, but might be becoming more common as Davis suggests. The rules have changed in the labor market and it may be difficult for labor providers to create a roadmap to follow for future success.

Based on these current trends and changes in our global communities, Davis explains how society could become dehumanized and unpleasant where individual workers compete against one another to complete tasks, driving down wages and changing the way labor is organized. All labor providers could have profiles listing their skills and reviews on how they completed past tasks. Labor providers would be forced to bid against one another to complete tasks, resulting in interchangeable workers. Will governments step in and say these labor providers are actually employees of the firms or just individuals choosing

to complete small tasks for organizations? Current trends have been mixed. The California Labor Commission recently ruled that Uber drivers should be considered employees (Karerat 2015). In international markets like France, court cases have been launched asking for rulings on whether or not Uber drivers are considered employees of the organization (Whitehouse 2016). In some instances where Uber drivers are not considered employees, we are even seeing these independent contractors join unions, like in New York City (Gruenberg 2016).

Davis also provides a utopian future alternative based on these current trends with changing business models and use of the labor markets. Could new technology and systems result in more of a local community focus? Local community platforms could be created where sharing of benefits within the community could result in less waste and avoid reliance on larger organizations for products. Such local communities could be self-sustaining, enabling democratic participation in decision making from all members of the community. This outlook gives individuals more power when making decisions and individuals are not viewed as interchangeable labor providers.

We are starting to see shifts in business structures and operations of not only firms in the United States, but globally. As the world continues to be more interconnected through trade agreements and technology (like the internet), one might expect business practices and trends to spread very quickly from one region to another. Some of these new forms of businesses like Uber, Airbnb, and Amazon Mechanical Turk have spread rapidly into other regions around the world and are gaining popularity, disrupting established corporations in their respective industries. Table 1 highlights several on-demand services that have been created in recent years. In many of these instances, labor providers choose to opt-in to complete some task. In Table 1, the sites have been grouped into six types of sharing platforms. More sharing categories could be created in the future and it is expected more competing platforms will enter this burgeoning marketplace.

Overall, *The Vanishing American Corporation* by Gerald Davis offers a compelling narrative of how corporations were created and flourished in the United States, how and why they have started to disappear in recent times, what some of the consequences of the corporate disappearance mean for stakeholders, and some possible outcomes as a result of these significant changes to the United States marketplace. There are ripple effects of these changes in the globally connected marketplaces where these new virtual platform-style corporations are being created. In China, for example, Uber has already

decided to play second fiddle by selling its stake to and becoming a minority shareholder in Didi Chuxing, the very successful Chinese ride-sharing company that out-competed Uber in China (Newcomer and Wang 2016).

Table 1: Major Categories of Sharing Platforms

<i>On-Demand Sharing Platform Category</i>	<i>Examples of Firms in the Category</i>
Delivery Sharing	Amazon Flex, Caviar, Door Dash, Favor, Grubhub, Instacart, OrderUp, Postmates, Roadie, Saucy, Spig, Shyp Couriers, Uber Eats, Washio
Product Sharing	3D Hubs, AptDeco, Closet Collective, Rentah
Ride Sharing	Curb, Fare, Fasten, Gett, GroundLink, Hailo, Hop Skip Drive, Lift Hero, Lyft, Ride Austin, SafeHer, Split, Turo, Uber, UZURV, Wingz
Space Sharing	9flats.com, Airbnb, Breather, Couch Surfing, Flipkey, Homeaway, Homestay, LiquidSpace, LoveHomeSwap, misterbnb, MonkeyParking, OneFineStay, Parking Panda, Rent Like a Champion, Roomorama, Roost, SPOT, VRBO, Wimdu
Task Sharing	Amazon Mechanical Turk, Bellhops, Care.com, CrowdFlower, DoctorOnDemand, DogVacay, Dolly, EatWith, ETSY, Exec, Fancy Hands, Feastly, Fiverr, Freelancer, Geekatoo, Gigwalk, GLAMSQUAD, Grand St, Handy, HomeAdvisor, HomeHero, Honor Care Pro, Josephine, Kitchit, LawnLove, LawTrades, Lynda.com, RedBeacon, Rover, Schlep, Seamless, Skillshare, Spare5, SpareHire, StyleSeat, TakeLessons, TaskEasy, Task Rabbit, Thumbtack, TurningArt, Udemy, UpCounsel, Upwork, Urban Massage, UrbanSitter, Vayable, Your Mechanic, Wag, Wonolo, Zeel
Vehicle Sharing	Boatbound, CoGo, Getaround, OpenAirplane, RV Share, Sailo, Shareshed, Spinlister, Toollocker

As a consequence of such changes, especially in the United States, we are likely to see fewer initial public offerings, more inequality between the haves and have nots, and upward mobility becoming more serendipitous than a defined path to be traveled through hard work and

dedication. Global managers would benefit from reading this book to get some insights into current trends and possible future marketplaces where they would be operating. Hiring practices, consumer demand, and delivery of products could change in very significant ways and organizations must be willing to adapt or face extinction like the dinosaurs. Business researchers could use insights from this book to generate future research to better understand implications of changing firm structures on workers, consumers, and global marketplace as a whole. This could include measuring the positive and negative consequences of the structural changes on the firm, workers, and consumers. Researchers could apply new theories to help explain these phenomena as well as investigate which marketplaces are quicker to adopt, and adapt to, these new firm structures and business practices. Through quicker adaptation, the agile adapters could gain a competitive advantage in the global marketplace.

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