Escaping from a psychological depression

- Structural changes
- the creative destruction in the 1980's
- from FED squeeze in the early 1980's to cut costs strategy "almost at any cost" and to reeingineering strategy

Reengineering work: don’t automate, Obliterate

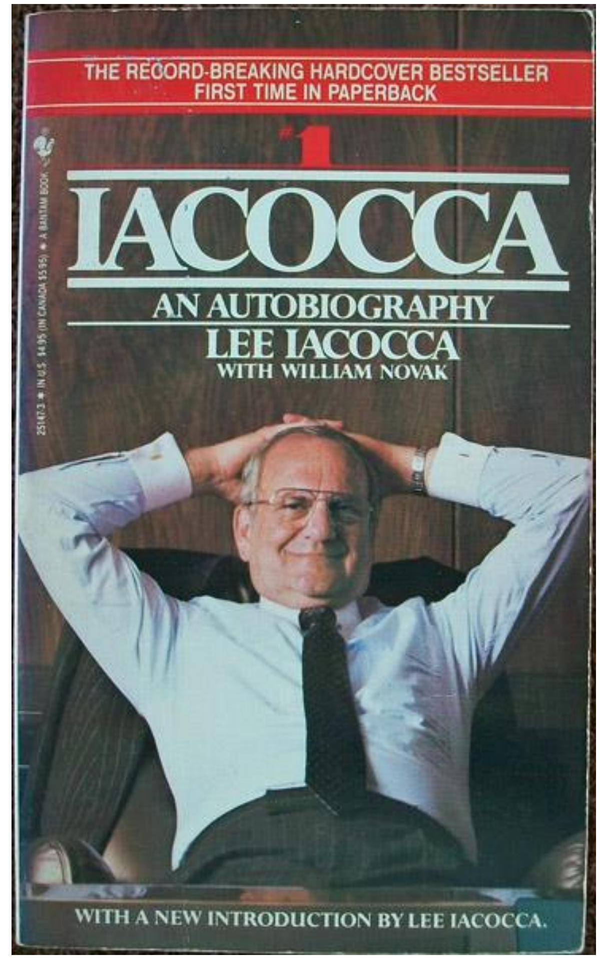
(M. Hammer, “Harvard Business Review”, 1990)

Using the power of modern IT to radically redesign the US business process in order to achieve improvement in the performance

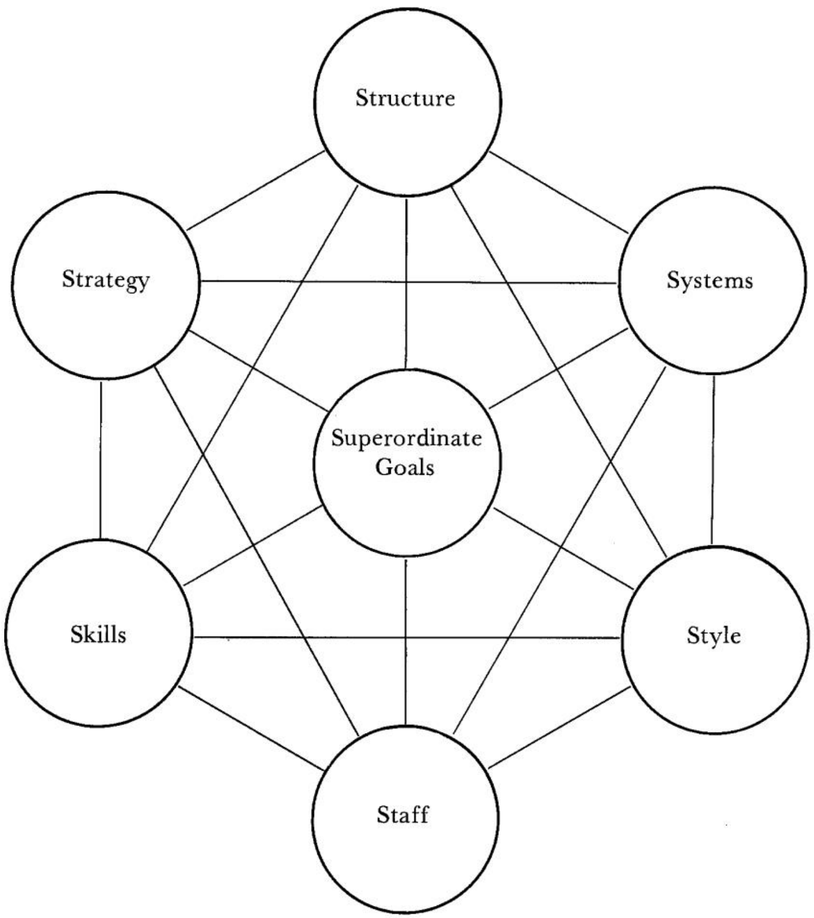
cannot be planned and accomplished in small and cautious steps

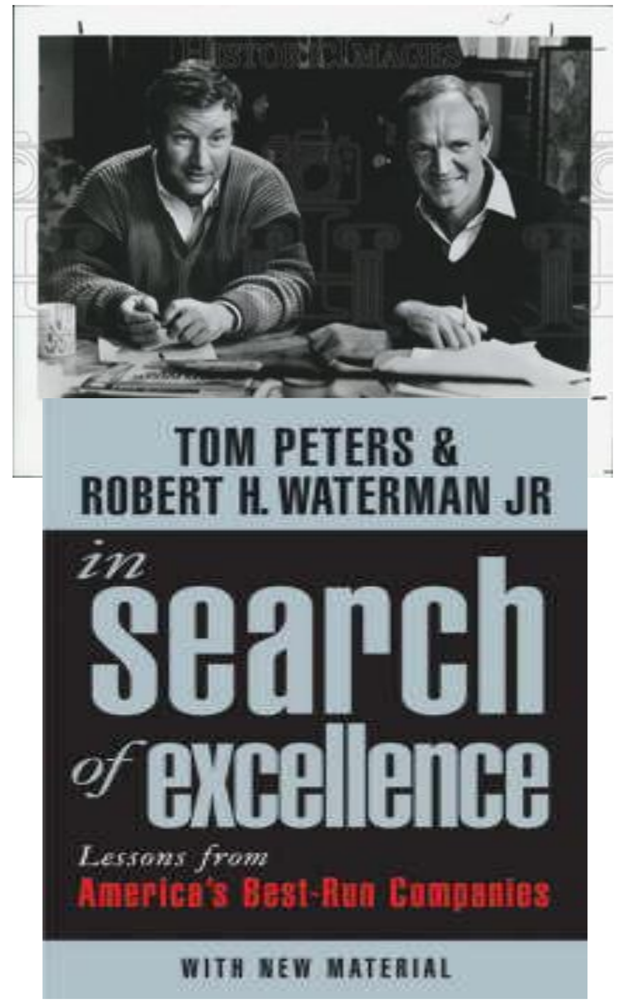
- Re-inventing the firm or re-organizing the work ?

- The US automotive industry: “cleaning the house”
- Iacocca fired 33 of 35 vice-presidents plus 13.500 blue collars
- “Just-in-time”



Time for old and new Gurus ?





- McKinsey & Co.: the 7-S framework –

- “At its most powerful and complex, the framework forces us to concentrate on interactions and fit. The real energy required to re-direct an institution comes when all the variables in the model are aligned” (T. Peters)

- “Hard is soft, Soft is hard”
- Plans & numbers are soft
- People and shared values and skills are “hard”, i.e. the bedrock upon which the adaptive and enduring enterprise is built
- “Hard Ss” (Strategy, structure, Systems) and
- Soft Ss (Style, Staff, skills, Shared values)

The essence of reeingineering

- Discontinuous thinking, recognizing and breaking away from the outdated rules
- Challenging old assumptions
- No adaptation; you can get new problems
- The right questions: Why ? And what if?

The principles of reengineering

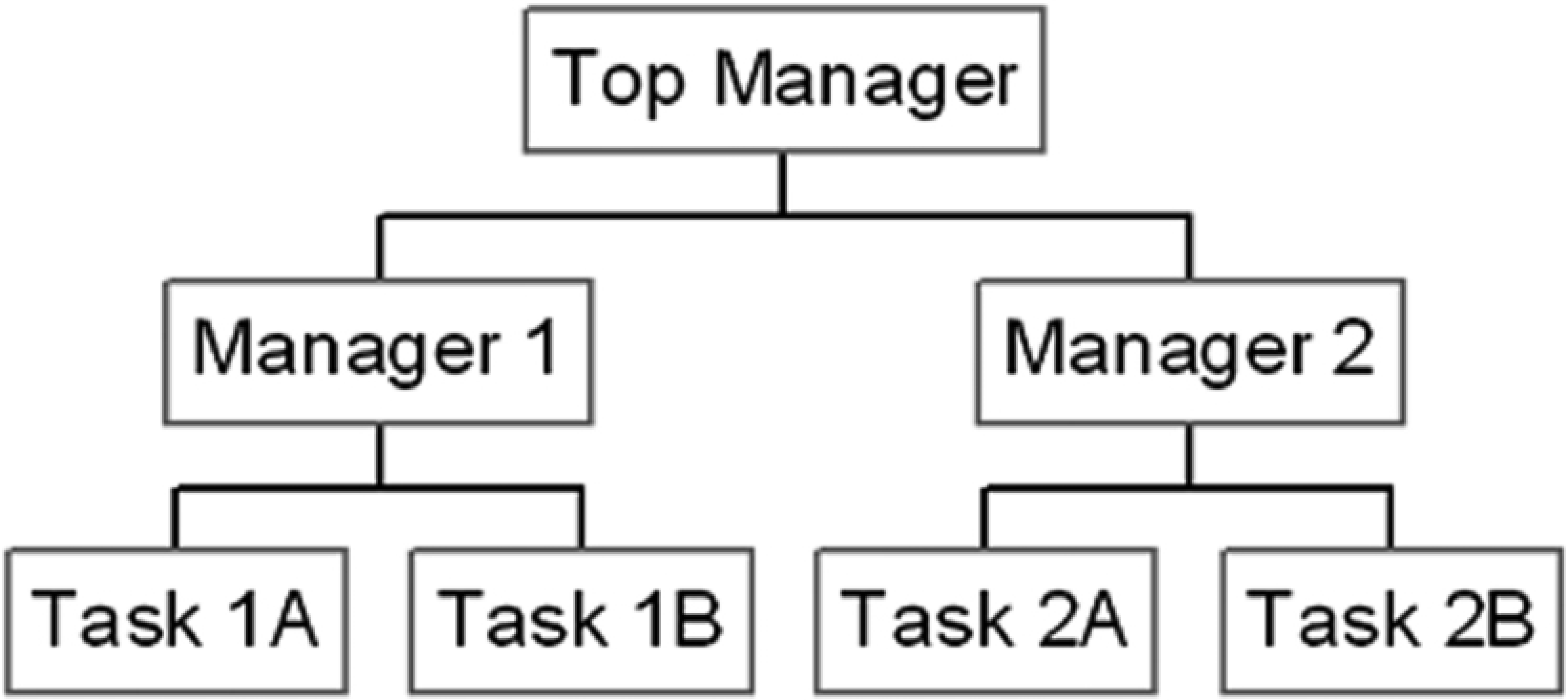
- 1) Organize around outcomes not tasks
- 2) having those who uses the output of the process performs the process
- 3) Subsume information-processing work into the real work that produces the information
- 4) link parallel activities instead of integrating their results
- 5) put the decision point where the work is performed, and build control into the process
- 6) capture information once and at the source

The NEW/OLD US BELIEF

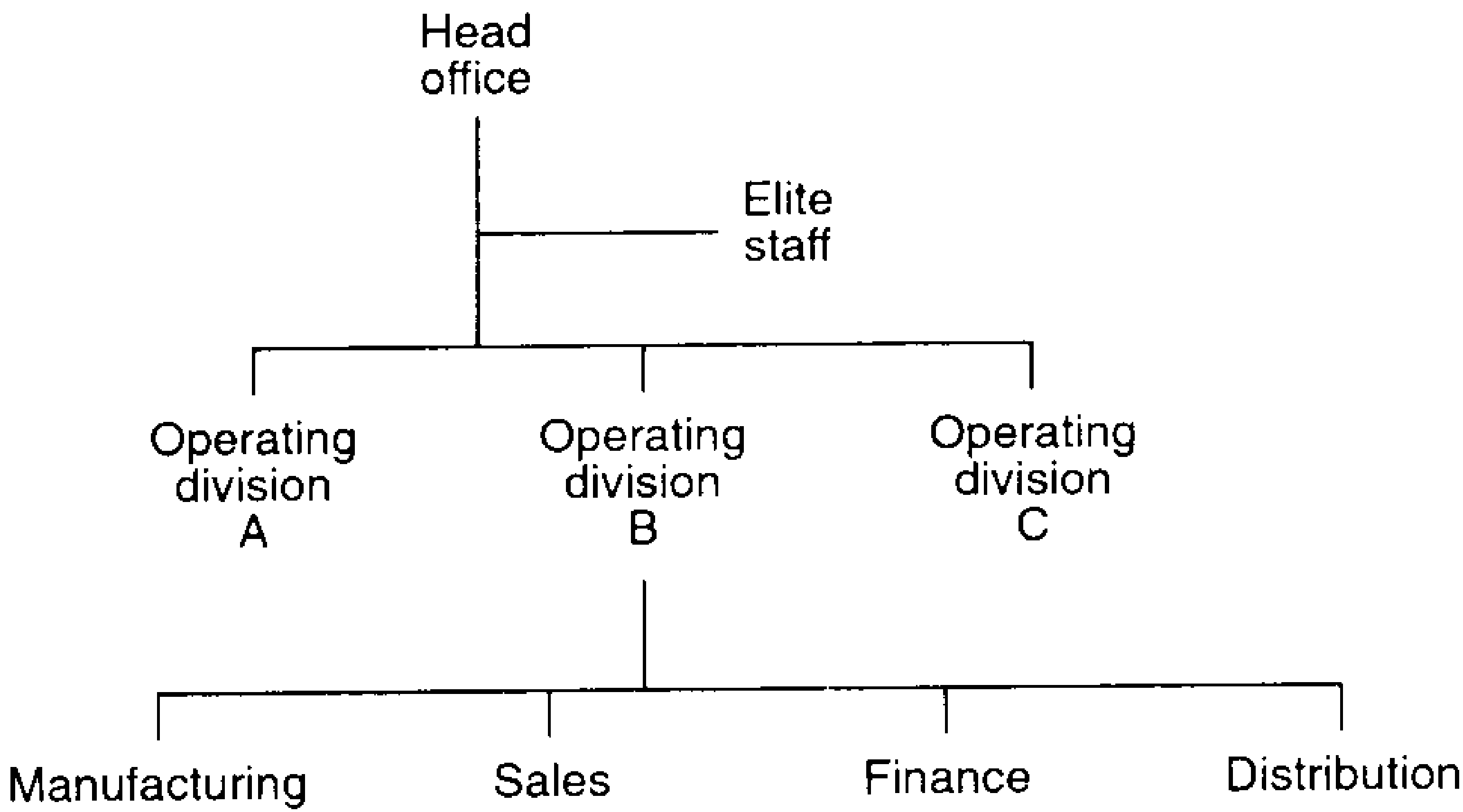
- Think Big: re-engeneering triggers changes of many kinds, not just of the business process itself. Job designs, organizational structures, management systems – it's a tremendous effort that mandates changes in many areas of the organization
- "We must have the boldness to imagine taking 78 days out of an 80-day turnaround time, cutting 75% of overhead, and eliminating 80% of errors. These are not unrealistic goals. If managers have the vision, reengineering will provide a way"

Re-organizing the business

- A new model ? From
- M-form to conglomerate and return?
- Spin-off of un-related divisions and departments
- Risks and new opportunities also for managers
- Three financial practices
- 1) managerial buy-out
- 2) leveraged buyout
- 3) junk bonds


Top Manager
Manager 1
Manager 2
Task 1A
Task 1B
Task 2A
Task 2B

Multidivisional form of organization

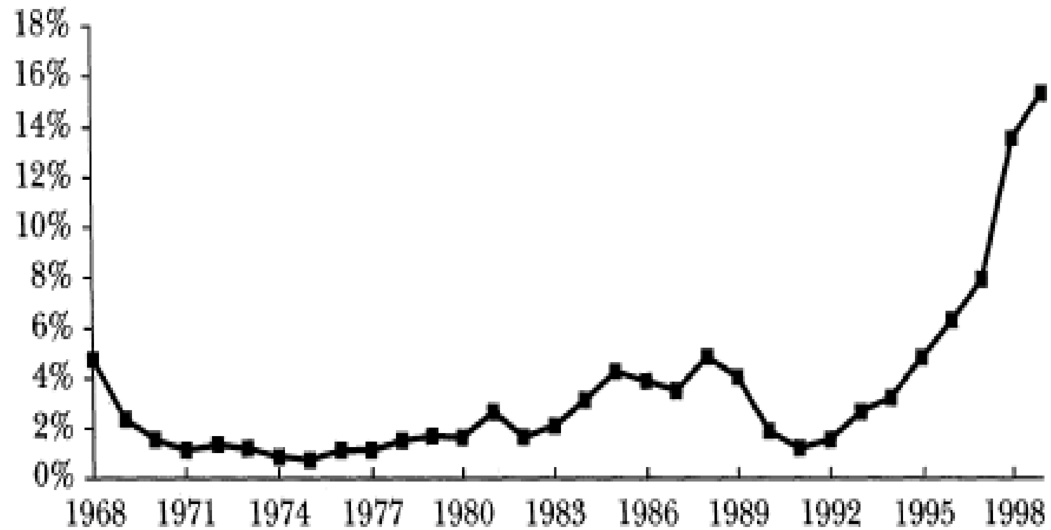


THE WAVE IS COMING

Year	Total LBOs
1979-80	5
1981	11
1982	13
1983	16
1984	37
1985	33
1986	68

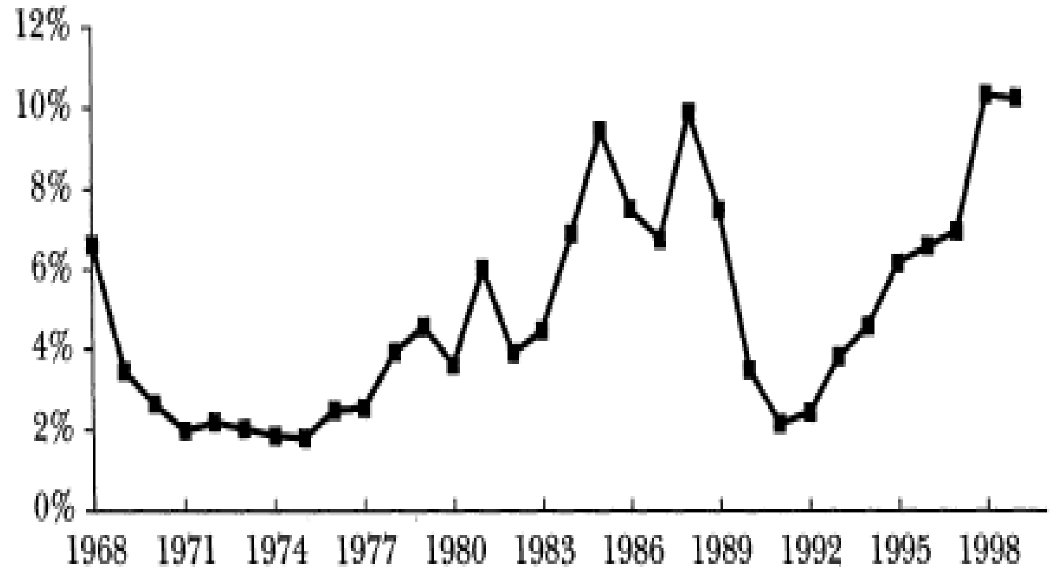
All Acquisition Volume as Percent of Average GDP

(1968–1999)



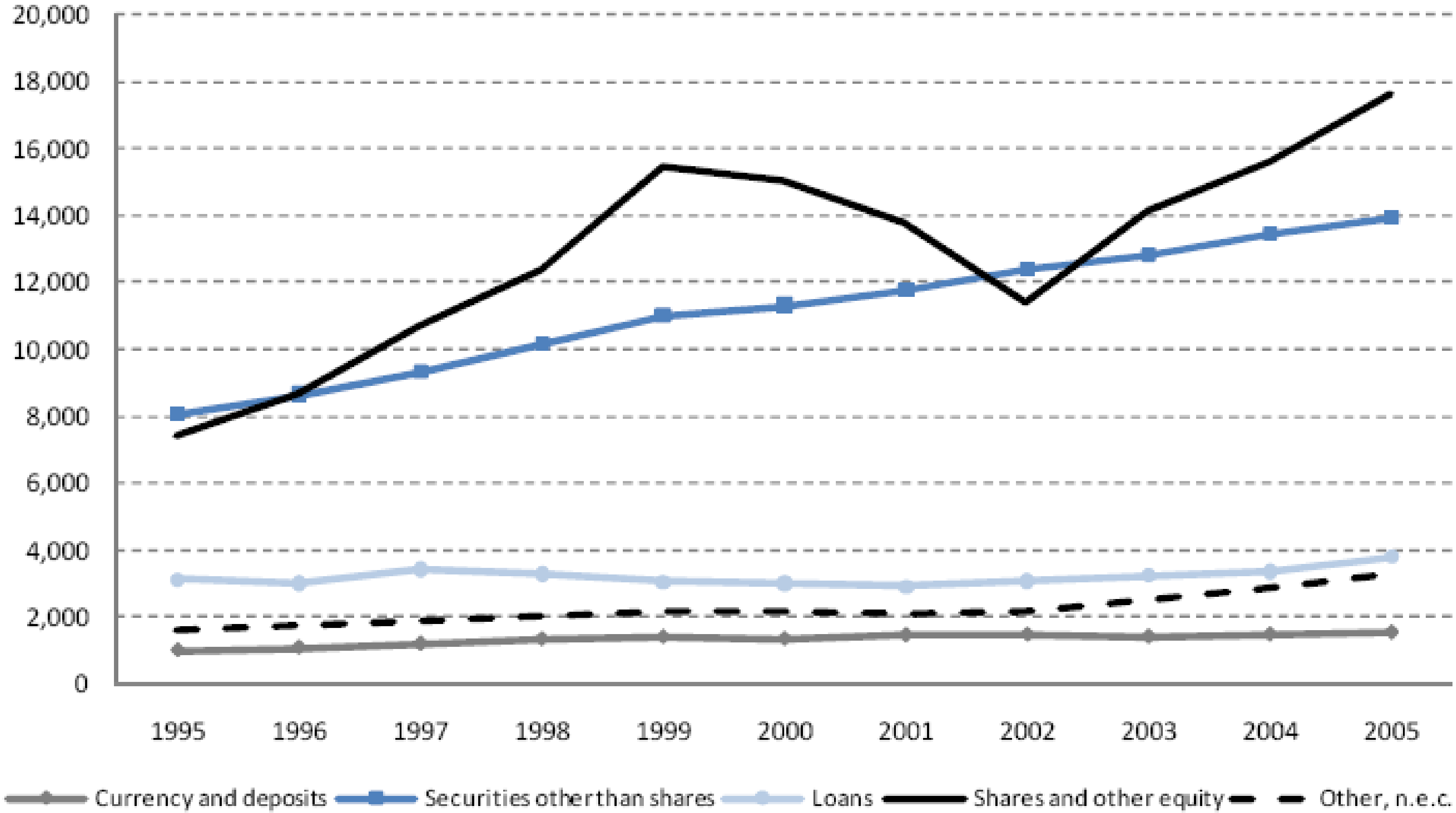
Source: Mergerstat, authors' calculations.

All Acquisition Volume as Percent of Average Total Stock Market Capitalization
(1968–1999)



Source: Mergerstat, authors' calculations.

Institutional investors OECD (17) total[1], 1995-2005



- Megamergers

- New giants (Alcoa, Exxon-Mobil, AT&T, Enron)

THE LARGEST MERGERS
& ACQUISITIONS THROUGHOUT HISTORY

Whether friendly or hostile, these corporate buyouts have great impact on the local and national economies which host them. Below are the 20 biggest mergers and acquisitions in world history.

FINANCE | TELE-COM | ENERGY | PHARM. | PRODUCTS

Acquirer
$ AMOUNT
Acquired

(1998)

Nation'sBank Corp.
$61.6B
BankAmerica Corp.

Travelers Group
$72.5B
Citycorp

(1999)

AT&T Corp.
$69.9B
Tele-com. Inc.

Vodafone Group
$65.8B
Airtouch Comm.

Sanofi-Synthelabo
$65.6B
Aventis

(2000)

SBC Communications
$70.4B
Ameritech Corp

Exxon Corp.
$85.1B
Mobil Corp.

Vodafone AirTouch
$202.8B
Mannesmann

Pfizer Inc.
$88.8B
Warner-Lambert Co.

(2001)

GlaxoWellcome
$78.7B
SmithKline Beecham

America Online
$181.6B
Time Warner

(2002)

Bell Atlantic Corp.
$71.3B
GTE Corp.

Comcast Corp.
$72.0B
AT&T Broadband

(2005)

Royal Dutch Petrol.
$80.3B
Shell Trans. & Trade.

(2006)

AT&T Inc.
$89.4B
BellSouth Corp.

(2007)

Shareholders
$61.6B
Kraft Foods Inc.

RFS Holdings
$98.2B
ABN-AMRO Holdings

(2008)

Shareholders
$113.0B
Phillip Morris Intl.

Gaz de France
$75.2B
Suez

(2009)

U.S. Treasury Dept.
$61.2B
GM Certain Assets

SOURCE:
ThomsonReuters
*As of August 9th, 2009

A new approach

- "to curb the size and influence of the federal establishment…It is no coincidence that our present troubles parallel and are proportionate to the intervention and intrusion in our lives that result from unnecessary and excessive growth of government … So with all the creative energy of our command, let us begin an era of national renewal"
- (Presidential Inaugural Addres, January 1981)

De-regulation: free trade and social consequences

- But also: Federal Trade Commission against price fixing, but not against big firms achieving relevant position in the market
- From Jimmy Carter to Clinton & G. W. Bush
- From airlines, banking, natural gas, and trucking (Carter) to air traffic controllers via Microsoft: the new interpretation of antitrust (Supreme Court) is only pro-consumers not pro-competitors

Labor policies

- New immigration (1980’s): low-skills workers, lower education
- → productivity decrease,
- increase inequality in earnings distribution

  delocalization policies (Mexico, East Asia, and China)

The new economic and cultural wind

- Reaganomics: Tax cut plan (top income tax down from 70 to 28% between 1981 and 1988)
- consequences: federal debt's increase from 1/3 of GDP to more than 50% of GDP – from main creditor to main world debtor
- Welfare expenditure down from 25,5 to 18,3 % of Federal budget in the late 1990s' significant increase of employment among single mothers

- The shift towards the conservatives
- Universities, TV and media (Talk shows, Fox TV)

- Military expenditure up from 22 to 27%
- «There is a growing perception among American citizens that American industrial base is on a downhill to a second-class status (…). The Department of Defense is becoming increasingly concerned. Many basic industries of importance for defense production have declined, threatening the responsiveness of our industrial base»
- But also unemployment down (Mc Donald’s jobs)

- Fairchild Conductor (controlled by the French company Schlumberger) - Fujitsu stopped by Caspar Weinberger,
- A US company, National Semiconductor, bought it some months later for US 122 million
- De-industrialization up (rust belt) and unemployment down: Mc Jobs

US vs. Europe 1.

TABLE 1

Growth Rate and Level of GDP per Hour Worked, U. S. vs. Europe, 1870-2003

	Annual Average Growth Rate			Europe Level, U. S. =100	
	U. S.	Europe	U. S. - Europe		Europe / U. S.
				1870	71
1870-1913	1.92	1.55	0.37	**1913**	61
1913-1950	2.48	1.56	0.92	**1950**	44
1950-1973	2.77	4.77	-2.00	**1973**	79
1973-1995	1.48	2.25	-0.77	**1995**	94
1995-2003	2.33	1.15	1.18	**2003**	85

Source: 1870-1990, Maddison (2001, Tables E-8 and E-9, pp. 352-3)
1990-2003, OECD Economic Outlook, December 2003, Table 13

US vs. Europe 2.

TABLE 3

Labor Productivity by Industry Group, U. S. vs. Europe, 1990-95 vs. 1995-2001, Annual Growth Rates in Percent

	United States			European Union		
	1990-1995	1995-2001	1990-2001	1990-1995	1995-2001	1990-2001
Total Economy	1.1	2.2	1.6	2.3	1.7	2.0
ICT Producing Industries	8.1	10.0	8.7	5.9	7.5	6.5
ICT Using Industries	1.2	4.7	2.9	2.0	1.9	1.9
Non-ICT Industries	0.3	-0.2	0.0	1.2	0.5	0.8

Source: O'Mahony and van Ark (2003, Table III.3).

Back to the future

- High-tech new business
- E-Commerce
- Bio-technologies
- The new heroes (Steve Jobs, Bill Gates, Jeff Bezos, Andy Grove)
- But also Wal-Mart

The financial bubble:
the general picture

- Aggregate value of outstanding shares of US corporation from $ 5,5 trillion (1994) to $ 17,1 trillion (1999) – Total US GDP in 2000 was $ 9,9 trillion
- Price-earnings from 19,9 (1994) to 44,2 (1999)
- If 20% is the normal long–term ratio, then 9,4 of the 11,6 $ trillion rise in equity value – 81 % - may represent a speculative increase

The financial bubble: some explanation

- 1) rapid increase of profit in 1991-93 at the level of the 1960’s : strong incentives to invest in US corporation
- 2) concentration of income among the richest sections of the population
- 3) growing hype with IT and later high tech (New Economy) lets believe that new laws of economy and finance have taken hold in US, eliminating the principle that what goes up must come down

The financial bubble: some explanation

- 4) severe crisis outside US in the 1990's caused a growing volume of foreign capital to flee to US (Russia, East Asia, Europe)
- 5) the long time elapsed since the end of the last "bear market" let believe that the end of the bubble would never come
- 6) the net issuance of equity securities by US corporation became negative between 1994 and 2000 (repurchases by corporations). The rising demand for corporate shares due to the five previous factors was met with a declining supply of corporate shares