

# Escaping from a psychological depression

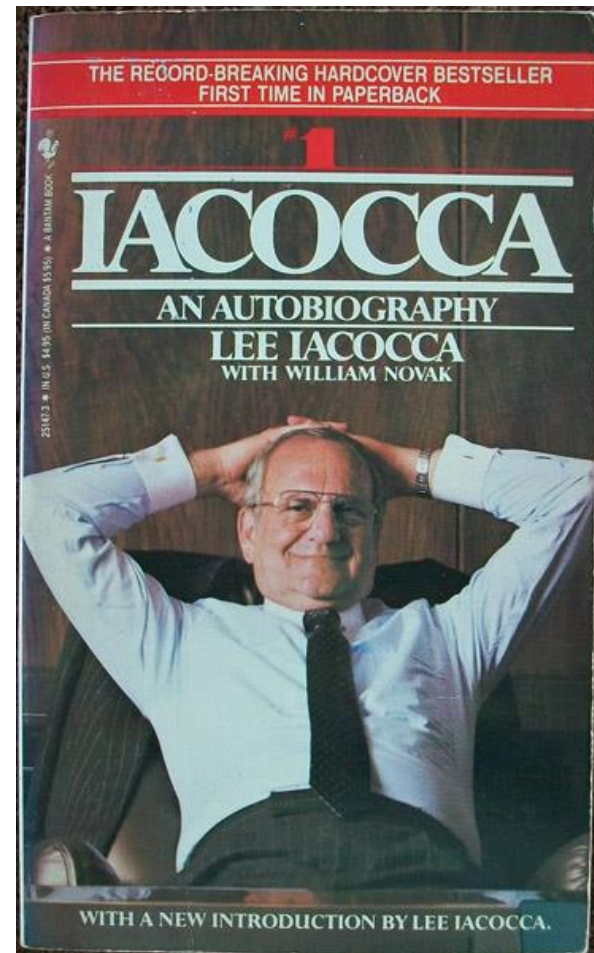
- Structural changes
- the creative destruction in the 1980's
- from FED squeeze in the early 1980's to cut costs strategy “almost at any cost” and to reengineering strategy

***Reengineering work:  
don't automate, Obliterate***

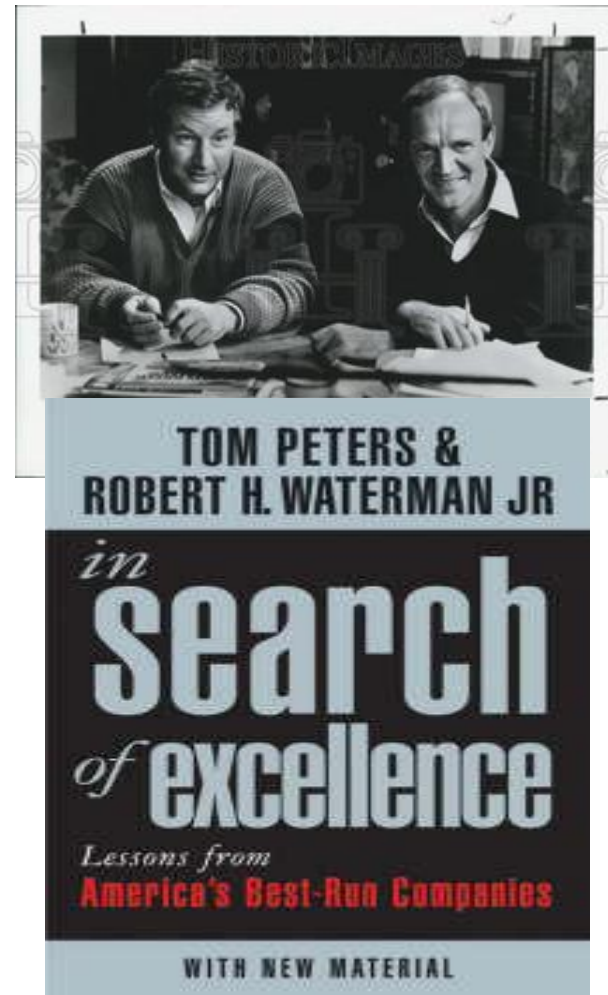
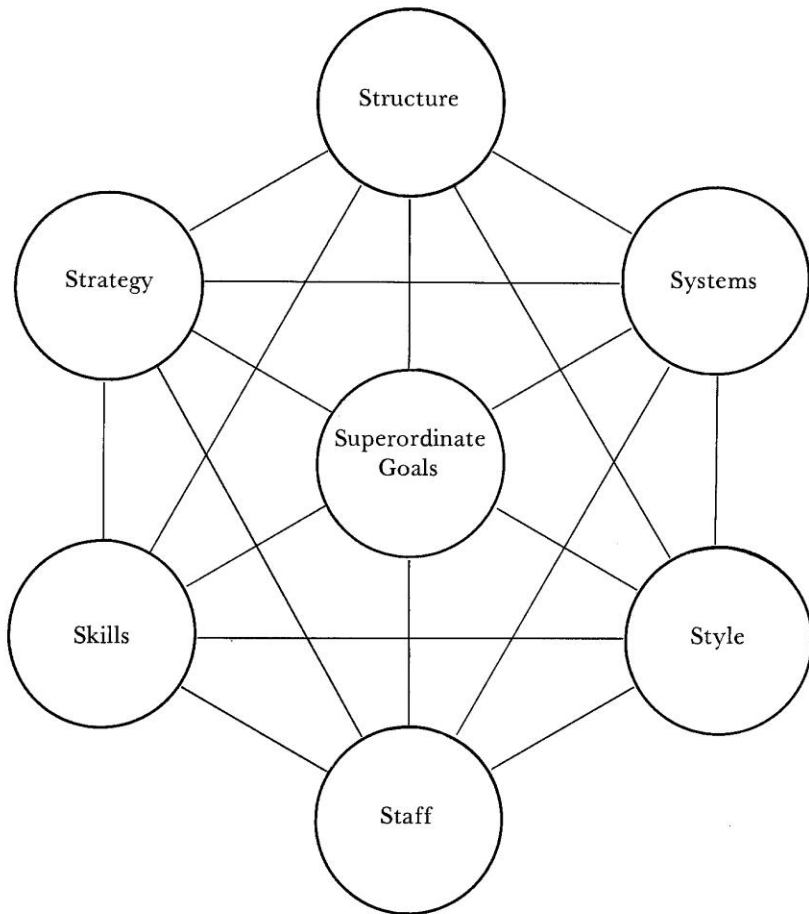
**(M. Hammer, "Harvard Business Review", 1990)**

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 reengineering

- Discontinuous thinking, recognizing and breaking away from the outdated rules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

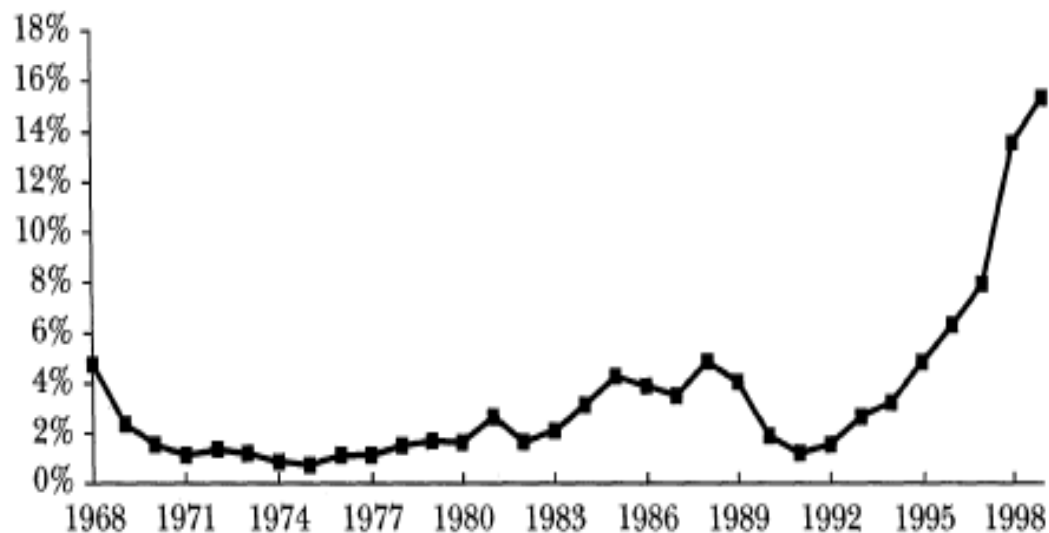
- 1) Organize around outcomes not tasks
- 2) having those who uses the output of the process performs the process
- 3) Subsume information-processing work into the real work that produces the information
- 4) link parallel activities instead of integrating their results
- 5) put the decision point where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

**THE  
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.

2008: 10.1%, 2007: 10.1%, 2006: 10.1%



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

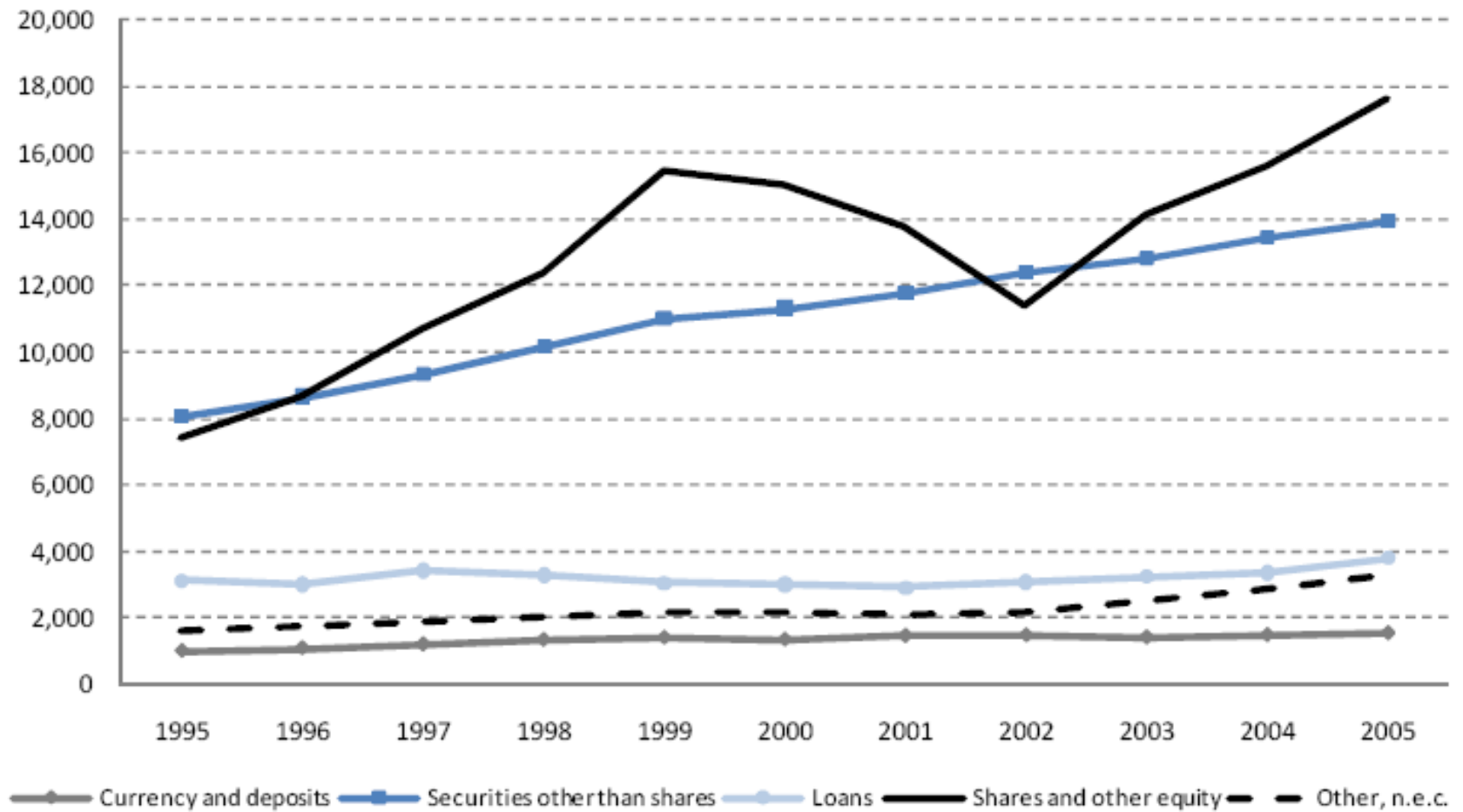


Source: Mergerstat, authors' calculations.

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1998 1991 1984 1977 1970 1963 1956 1949 1942 1935 1928

Institutional investors OECD (17) total<sup>(A)</sup>, 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]



[1999]



[2000]



[2001]



[2002]



[2005]



[2006]



[2007]



[2008]



[2009]



SOURCE:  
Thomson Reuters  
\*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 Address, 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»

- 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.

<b>TABLE 1</b>					
<b>Growth Rate and Level of GDP per Hour Worked, U. S. vs. Europe, 1870-2003</b>					
<b>Annual Average Growth Rate</b>				<b>Europe Level, U. S. =100</b>	
<b>U. S.</b>	<b>Europe</b>	<b>U. S. - Europe</b>		<b>Europe / U. S.</b>	
			<b>1870</b>		<b>71</b>
<b>1870-1913</b>	1.92	1.55	0.37	<b>1913</b>	<b>61</b>
<b>1913-1950</b>	2.48	1.56	0.92	<b>1950</b>	<b>44</b>
<b>1950-1973</b>	2.77	4.77	-2.00	<b>1973</b>	<b>79</b>
<b>1973-1995</b>	1.48	2.25	-0.77	<b>1995</b>	<b>94</b>
<b>1995-2003</b>	2.33	1.15	1.18	<b>2003</b>	<b>85</b>

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.

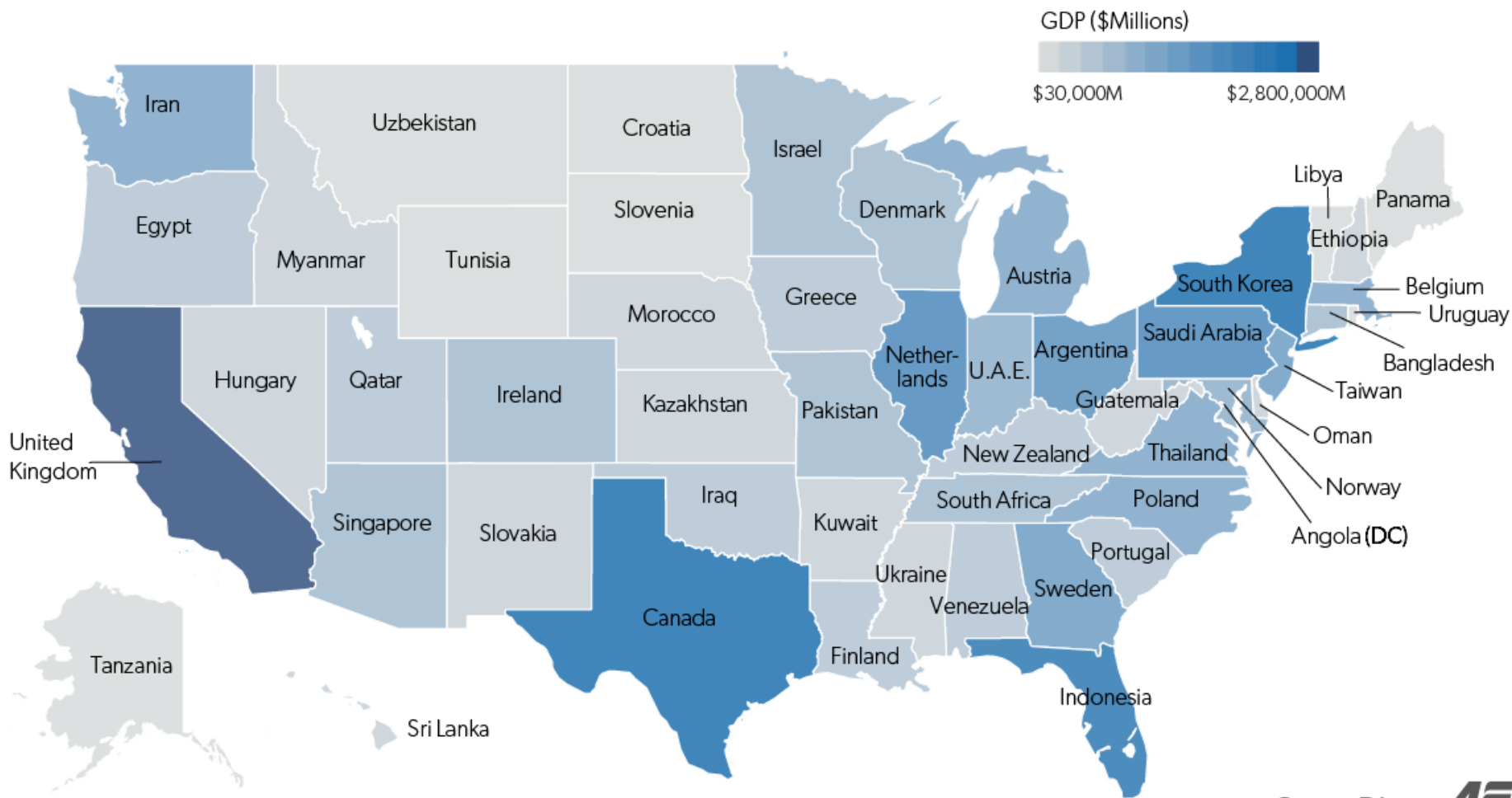
**TABLE 3**

**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
<b>Total Economy</b>	<b>1.1</b>	<b>2.2</b>	<b>1.6</b>	<b>2.3</b>	<b>1.7</b>	<b>2.0</b>
<b>ICT Producing Industries</b>	<b>8.1</b>	<b>10.0</b>	<b>8.7</b>	<b>5.9</b>	<b>7.5</b>	<b>6.5</b>
<b>ICT Using Industries</b>	<b>1.2</b>	<b>4.7</b>	<b>2.9</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>
<b>Non-ICT Industries</b>	<b>0.3</b>	<b>-0.2</b>	<b>0.0</b>	<b>1.2</b>	<b>0.5</b>	<b>0.8</b>

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

# US States Renamed for Countries with Similar GDPs (2017)



Sources: Bureau of Economic Analysis and International Monetary Fund