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Opinion

The Past and Future of the US Corporations

Karim S Rebeiz*

Dean Faculty of Business and Management, University of Balamand, Lebanon

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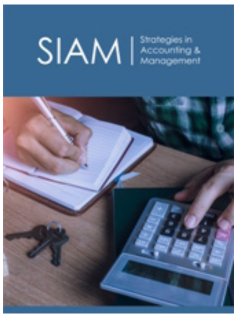

***Corresponding author:** Karim S Rebeiz, Dean Faculty of Business and Management, University of Balamand, Koura, Lebanon

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Opinion

Corporations blossomed by the late 19th century with the emergence of illustrious firms such as Union Pacific, Standard Oil, U.S. Steel, DuPont, American Tobacco, General Motors, and Sears Roebuck. By the dawn of the 20th century, Wall Street emerged as a preeminent organized exchange for the equity market, thus greatly facilitating the access and transferability of capital in and out the corporation. The growth of the corporation was accompanied with the mutation of the ownership landscape and function. For practical reasons, the shareholders often opted to forego the organizational control for the sake of liquidity. Thus, the owners of large corporations gradually transitioned from being active managers to being passive shareholders, or mere suppliers of capital. The rise of absentee owners also resulted in the emergence of a new breed of professionals, namely the Chief Executive Officer (CEO) agent with the incumbent duty to manage the day-to-day operations of the firm on behalf of the principals (i.e., the shareholders).

In the aftermath of World War I, the market experienced a significant economic boom, and the stock prices were in an upward trend. The roaring economic prosperity of the 1920's was abruptly interrupted by the market crash of the memorable day of October 24, 1929. This event signaled the unfolding of the great depression. Although the U.S. experienced several cycles of depression prior to 1929, none of them were as severe and prolonged as the Great Depression. Thereafter, the Securities and Exchange Commission (SEC) was born with the adoption of the Securities Acts of 1933 and 1934. In the aftermath of World War II, the corporation embarked into a spectacular period of growth and economic prosperity. Given the abundance of resources and the lack of foreign competition, the corporations seamlessly rode the success wave and enjoyed a sea of tranquility. The 1960's experienced a significant wave of mergers and acquisitions of companies belonging to vastly unrelated industries, thus resulting in the creation of single and large conglomerates. The monumental failure of the Penn Central in the early 1970's prompted the SEC to formally and publicly investigate for the very first time the effectiveness of the board of directors. The findings of the report underscored a major malfunctioning in the modus operandi of the board of directors, namely its passivity, and concluded that a seat on the board was more akin an honor than an active duty with important responsibilities. In the 1970's and 1980's, the Reagan administration largely endorsed the Friedman school of thought of laissez-faire by relaxing many corporate regulations. In the aftermath of the deregulation era, the corporations became vulnerable to hostile acquisition, takeover and restructuring activities often through leveraged buyouts (the so-called deal decade). In the 1990's, many corporations started to deleverage their balance sheet via equity refinancing. Although less glamorous and less scandal ridden than the leveraged buyout, the reversal of the leveraging of the balance sheet was not less economically significant.

The 1990's placed the CEO compensation scheme as a focal point of interest in the corporate arena, notably with the significant transformation in the nature of executives' compensation schemes and, specifically, the introduction of executives' stock option (ESO) with the intend to link executive pay with corporate performance. By the mid 1990's, the majority of the equity in the corporations listed in liquid exchange markets (e.g., NYSE, NASDAQ) was no longer owned by individual investors; rather, the majority of the equity was under the jurisdiction of institutional investors encompassing mutual fund firms, hedge funds, public pension funds, private pension funds, insurance firms, foundations and other financial firms. Among the institutional investors, the public pension funds were notable shareholder activists. They used their concerted power and common voice to influence corporate governance practices. The public pension funds did not confine shareholder activism to individual corporations. They also targeted the regulatory agencies, and most notably the SEC to modify regulations they perceived as infringing on shareholders' rights.

The mid to late 1990's witnessed the advent of the dot.com revolution with the transitioning of the marketplace from being an "economy of hand" into an "economy of head", particularly with the breathless diffusion of the internet. The unfolding of the new millennium witnessed massive corporate failures that reverberated across the entire marketplace. Such scandals involved emblematic names, notably Enron, WorldCom, Tyco International, Adelphia Communications, Global Crossing (just to mention a few). They indulged in disingenuous financial disclosure practices that superbly fooled the entire marketplace. The Enron's scandal, in particular, triggered the enactment of the Sarbanes-Oxley Act, the most sweeping regulatory reform since the enactment of the Securities Exchange Act of 1934. The subsequent subprime crisis also exposed the scandal laden environment of the financial sector in which mortgage receivables were securitized and sold in the global marketplace without a proper disclosure of their true risk profiles. Virtually all of the investment banks (as stand-alone entities) have officially disappeared by late September 2008. The last big independent investment banks on Wall Street, namely Goldman Sachs and Morgan Stanley, converted their status into traditional bank holding companies. In today's world, the technological revolution is propagating across the globe at a swift pace and is seamlessly connecting geographically dispersed businesses, people and devices in ways never imagined just a decade ago. This technological revolution is spurring the outburst of fresh data thanks to the rapid commoditization of digital information, the development of cloud-based cyber-infrastructure, the emergence of the Internet of Things, and the widespread usage of social media, and other technological headways.

The next generation corporation is expected to be bombarded with a continuous stream of eclectic data that are often in the Terabyte range and above, a phenomenon that has been dubbed as big data. The massive raw data are of little value to the decision-makers unless they are transformed into valuable resources via the judicious utilization of big data analytics. Undoubtedly, the corporation is heading towards artificial intelligence and machine learning to leverage the power of big data in real time. Finally, the COVID-19 is deeply affecting the corporate practices in terms of planning, organizing, leading and controlling its human resources. The pandemic is also forcing the corporation to engage in a self-evaluation exercise by answering the following questions: What have we learned from this experience? What should we do differently? What should we focus on as we move forward?