



# Eclipse of the Public Corporation or Eclipse of the Public Markets?

Doidge, Kahle, Karolyi, Stulz  
Journal of Applied Corporate Finance, 2018

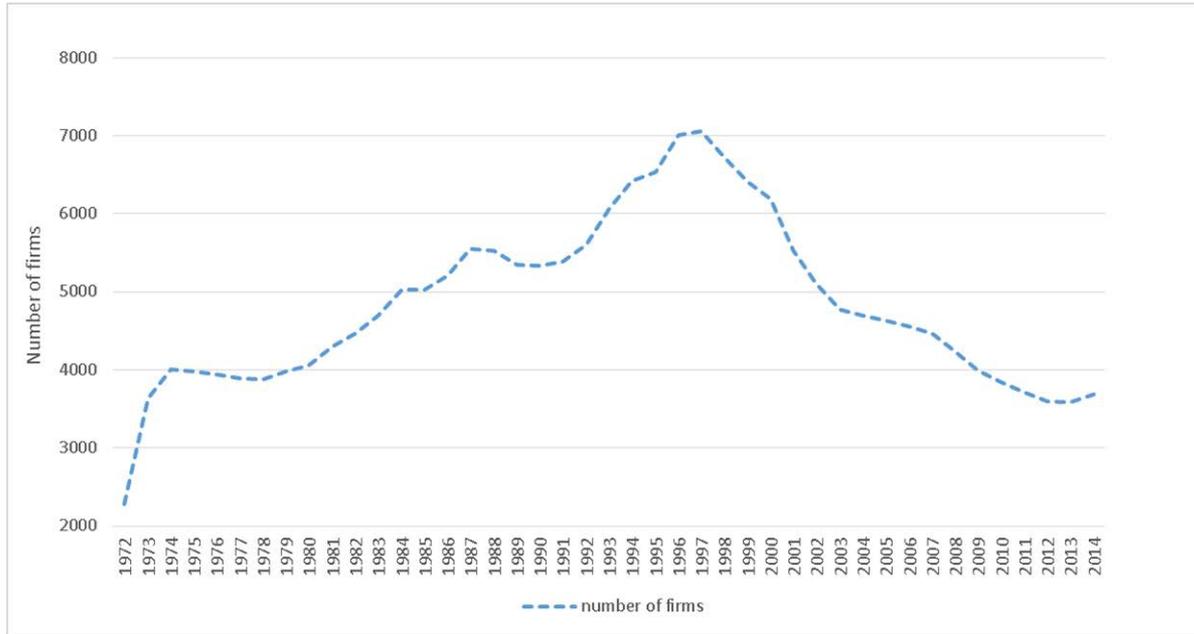
Some observations by Roni Michaely  
University of Geneva; Geneva Finance Research Institute, and SFI

- ❑ Are publicly-held corporations in decline?
- ❑ Have they outlived their usefulness?
- ❑ If so, WHY?
  - Increased agency costs?
  - Or, perhaps, public markets are an experiment that simply failed—due to conflicts of interest
  - “U.S. public markets are not well-suited to satisfy the financing needs of young firms with mostly intangible capital” (why? And why now?)

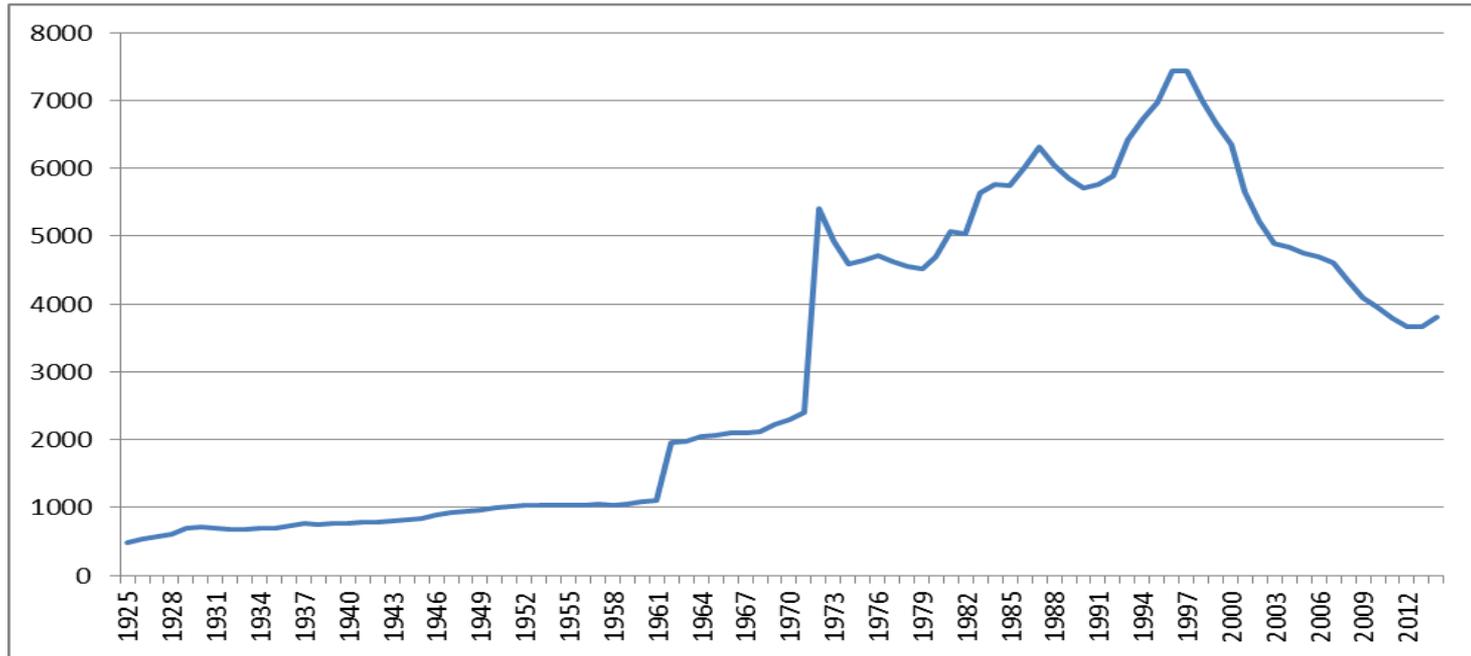
Are public corporations in decline?

Yes

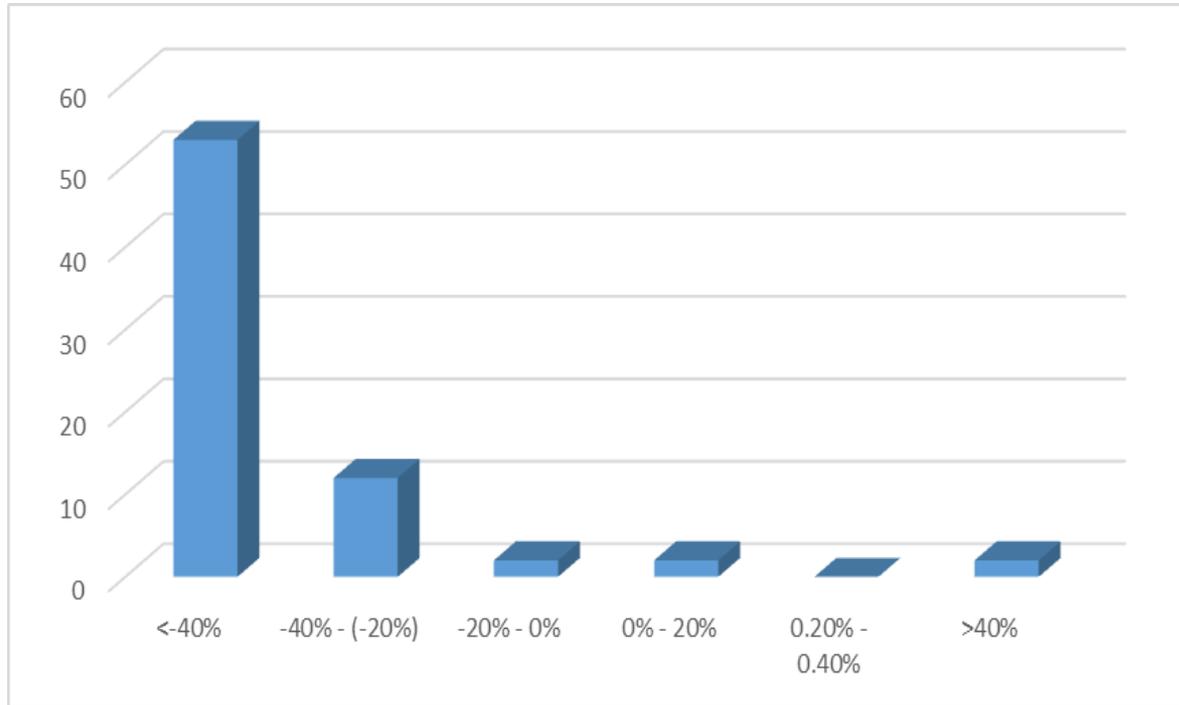
## The majority of the U.S. industries lost over 50% of their publicly traded peers (Grullon, Larkin, Michaely, 2018)



# Is it simply a cyclical phenomenon? (Number of publicly-traded firms over time)



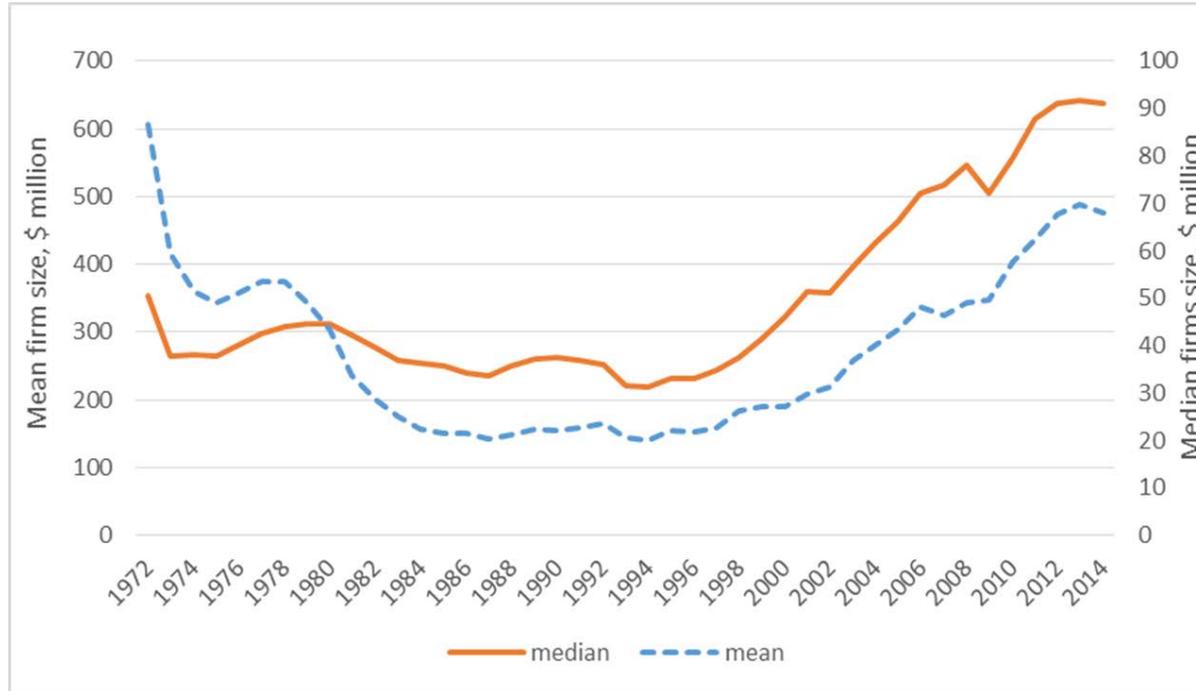
# The decline of traded firms is widespread across industries



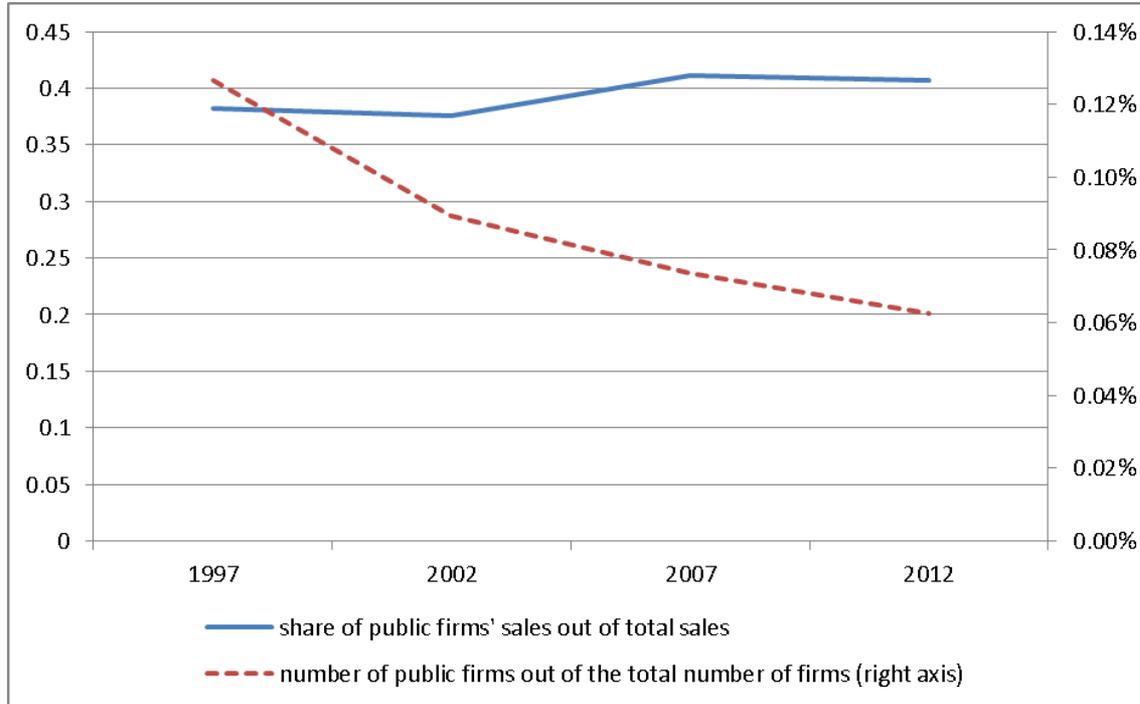
Are public corporations in decline?

Not sure

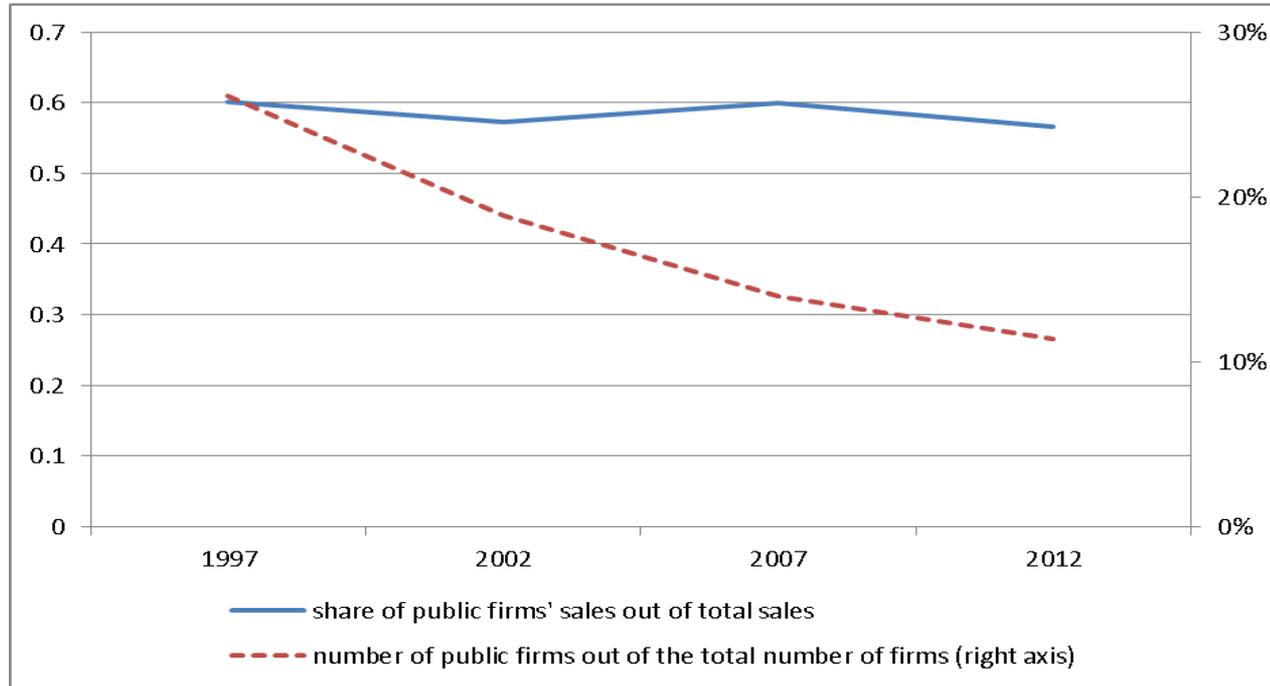
# The remaining publicly-traded firms became bigger (in real terms)



# The share of public firms out of total sales has remained the same



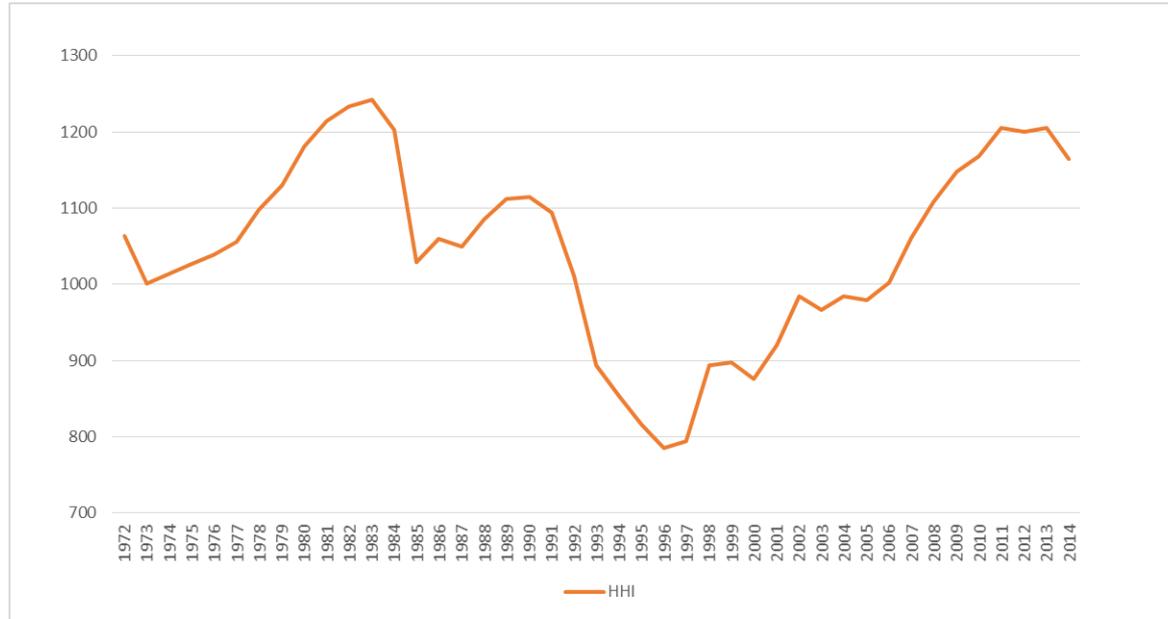
# Same for a subsample of large (over \$100m) of firms



# Clearly fewer smaller (public) firms

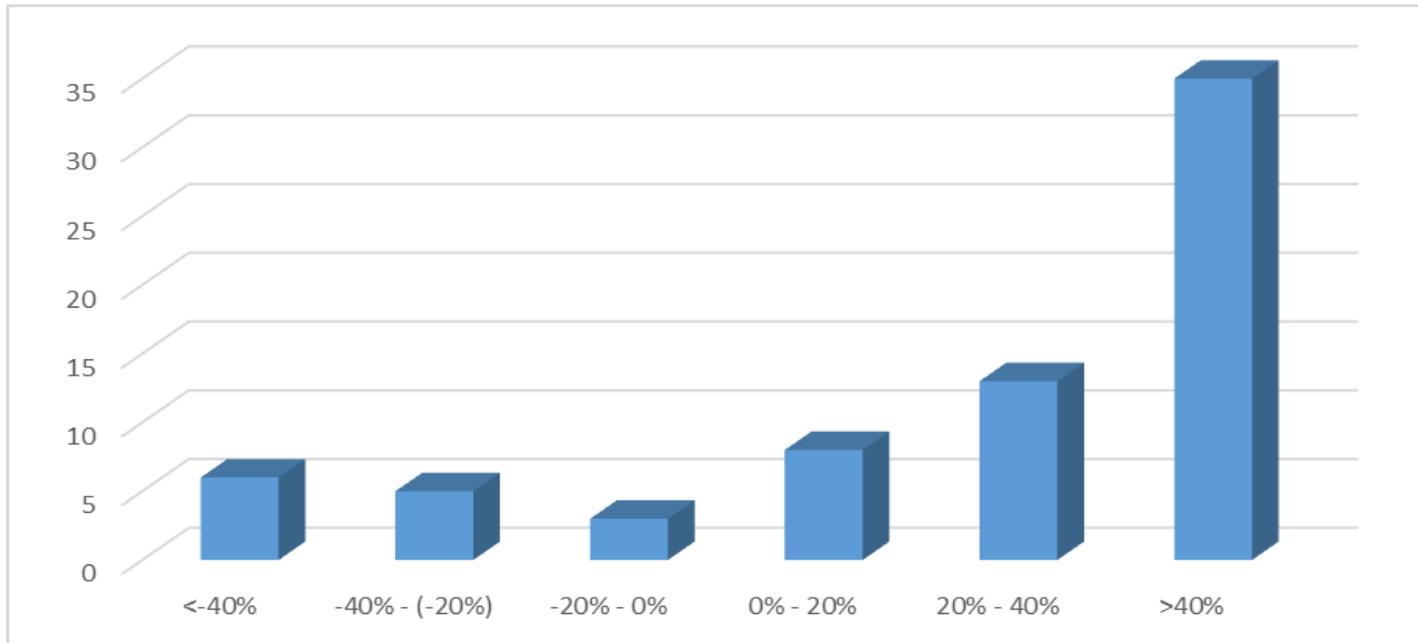
- WHY?
  - It's not about minimum BAS that is too small
  - It's not about SOX or Reg FD
  - Other, cheaper, ways to finance (e.g. VCs, SVB)
  - More intensive R&D disclosure? (e.g., the impact of the JOBS act ?)
  - Perhaps it's not about public markets but about the ability of young, smaller firms to compete

# Increased concentration over time (HHI)

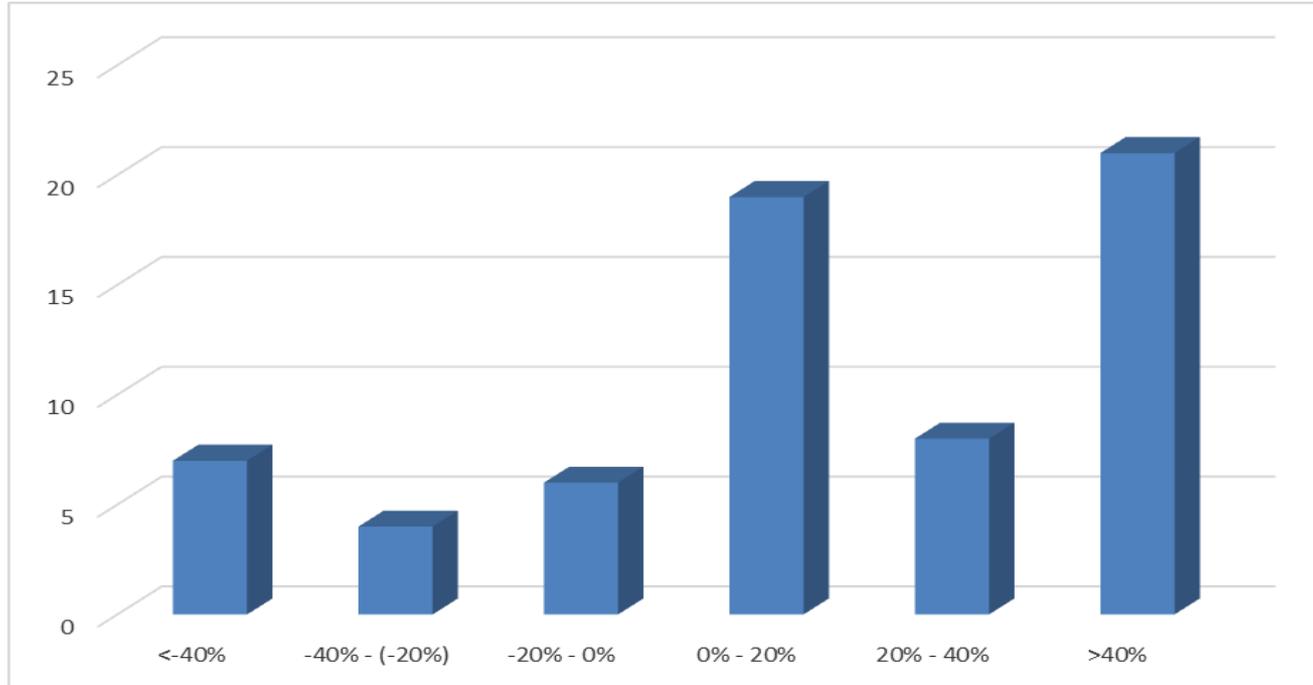


# Increased concentration in most industries in the US

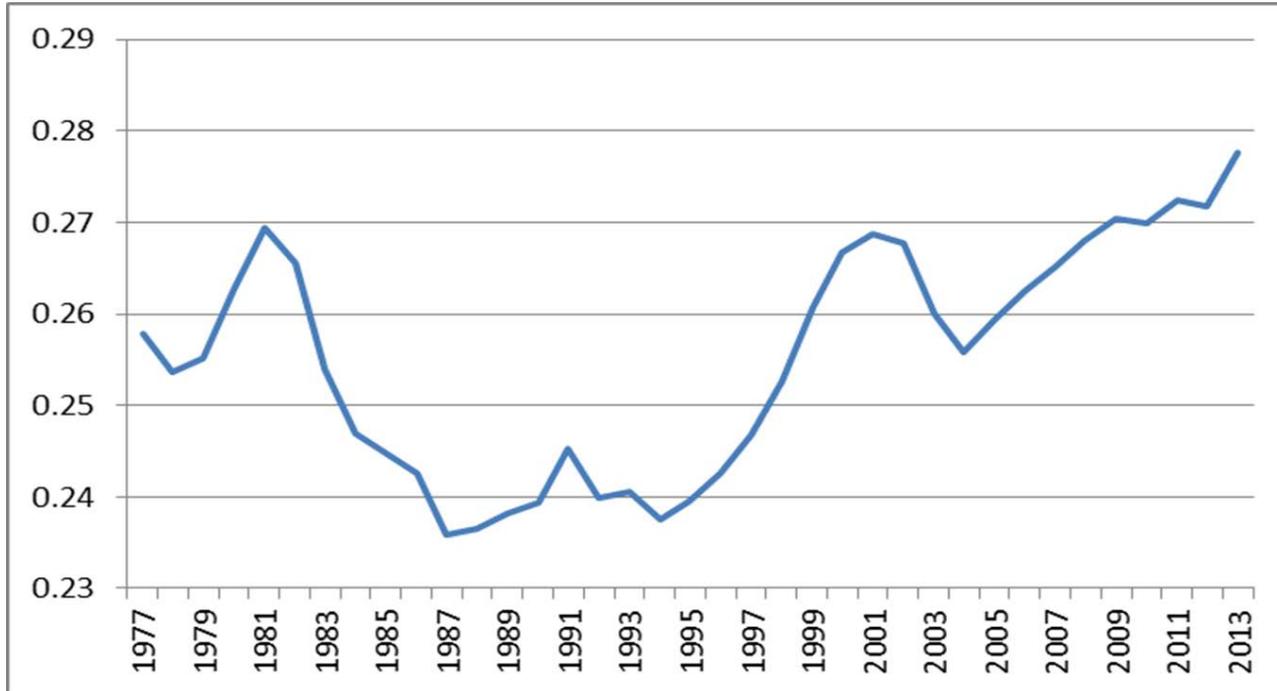
- This phenomenon is widespread.
- Concentration increased in most industries (3 digit NAICS; 1997 relative to 2014)



## Increased concentration: The share of the largest 4 firms in the industry has increased (1997 vs 2014)



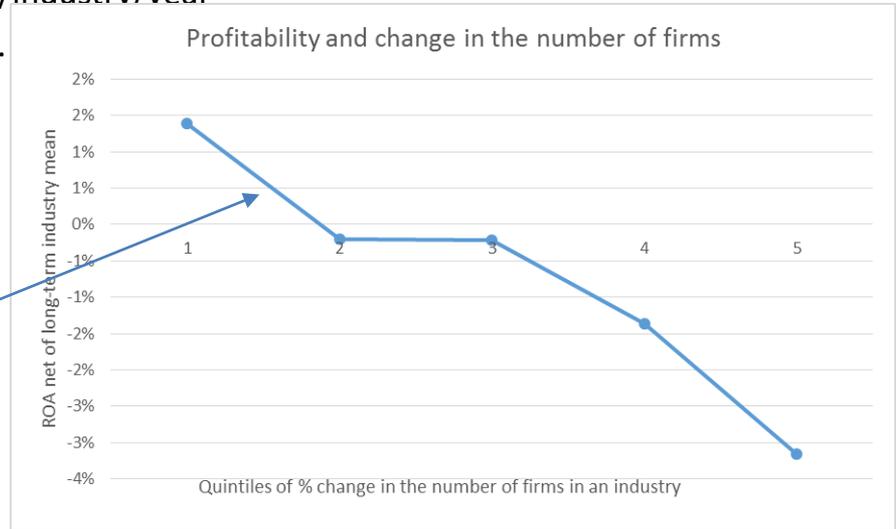
## Increased concentration: The share of employment in large firms (10,000+ Employees) has increased



# Economic Implications: Firms earn higher profits

- In each year calculate the percentage change in concentration (e.g., the number of firms relative to the long-term average for each industry)
- Rank all the changes (quintiles)
- Calculate average change in ROA for each firm/industry/year
- Aggregate the change in ROA for each quintile.

The increased concentration is associated with increased profitability



# As industries become more concentrated

- Increase in ROA and profit margins (Grullon et al 2018)
- No increase in efficiency (Grullon et al 2018)
- Increase in concentration of innovation (Grullon et al 2019)
- No increase in investment in capital or labor (Barkai 2017, Gutierrez and Philippon 2017),
- But increase in payment to shareholders (Barkai 2017)
- Increase in ability to 'squeeze' labor (BenMelech et al 2018)
- Increase in value of related mergers (Grullon et al 2018)
- **Not unique to public firms**

# What's behind it?

- Falling enforcement, rising concentrations
- Increased barriers to entry

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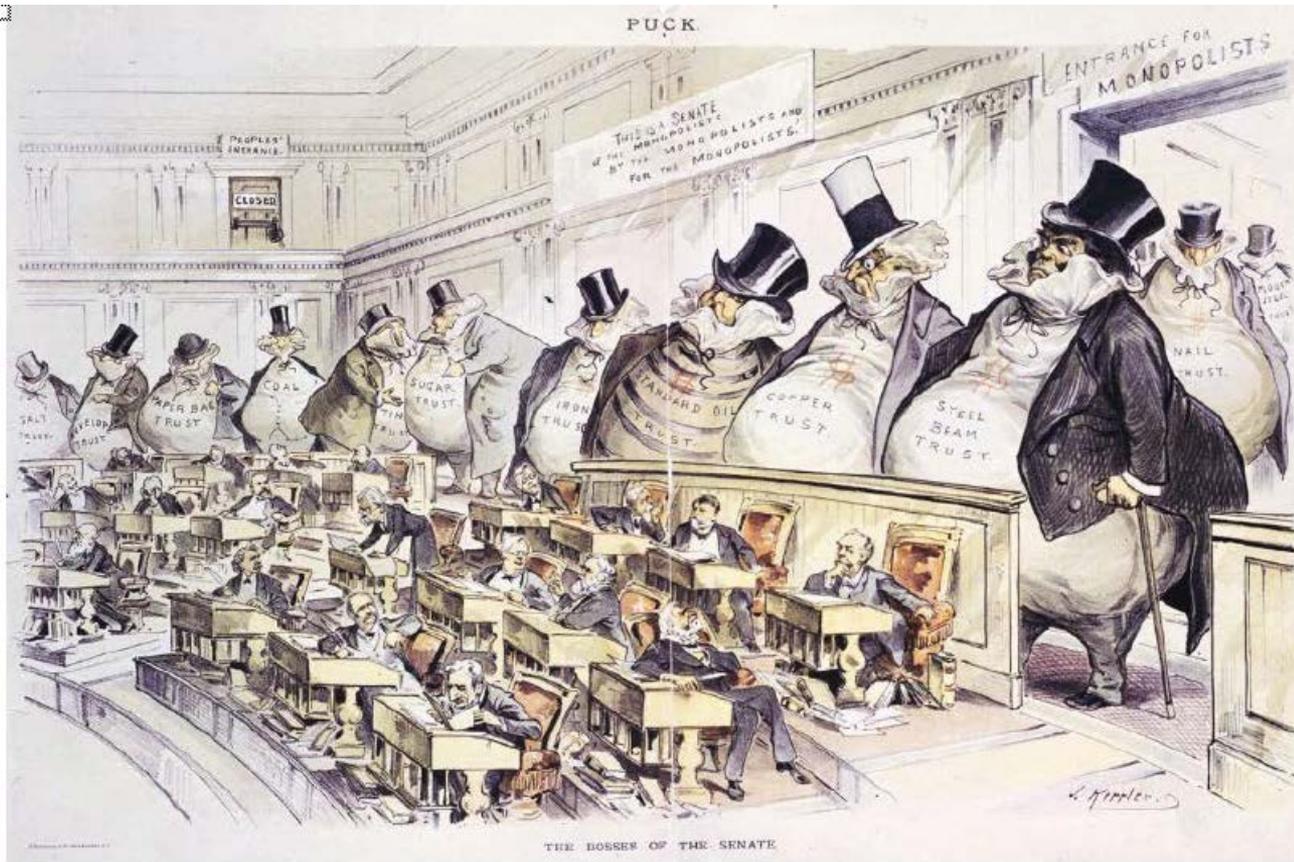
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## Tech Giants Google, Facebook and Amazon Intensify Antitrust Debate



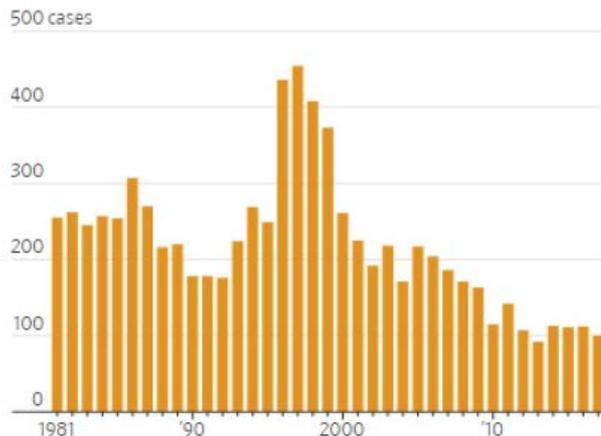


An 1889 political cartoon depicted the growing influence of large businesses during the Gilded Age. PHOTO: LIBRARY OF CONGRESS

## Falling Enforcement, Rising Concentration

Since the late 1990s, the Justice Department has pursued fewer cases accusing big companies of antitrust law violations. Over that same period, some economists say, large firms have gained greater control of the American economy.

**Antitrust enforcement cases filed by the Justice Department annually**



**Herfindahl-Hirschman Index, a measure of industry concentration in the U.S. economy\***



\*For all U.S. publicly traded firms

Sources: Justice Department (investigations); 'Are U.S. Industries Becoming More Concentrated?' October, 2018, Gustavo Grullon, Rice University; Yelena Larkin, York University; Roni Michaely, University of Geneva (index)

# Pizza as an example

## Big Pizza Chains Use Web Ordering To Slice Out Bigger Market Share; Many Mom-and-Pop

shops

Infrastructure Goes High-Tech

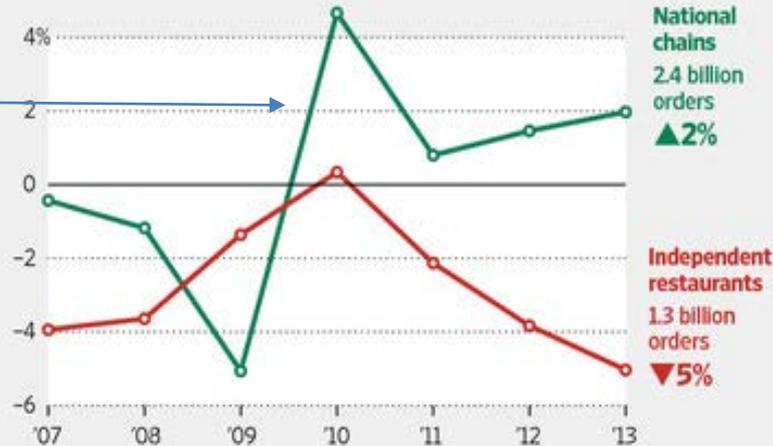
- Smartwatches
- Connected cars
- Xbox Orders
- Retinal scanning
- GPS to monitor drivers
- 400 tech people
- @Dominos

### Uneven Slices of the Pie

Domino's, Pizza Hut and other national chains, helped by mobile and online orders, are taking market share from local pizza shops. Orders to pizza restaurants, change from year earlier

Notes: For years ending in November and include phone, app, Web and in-store orders

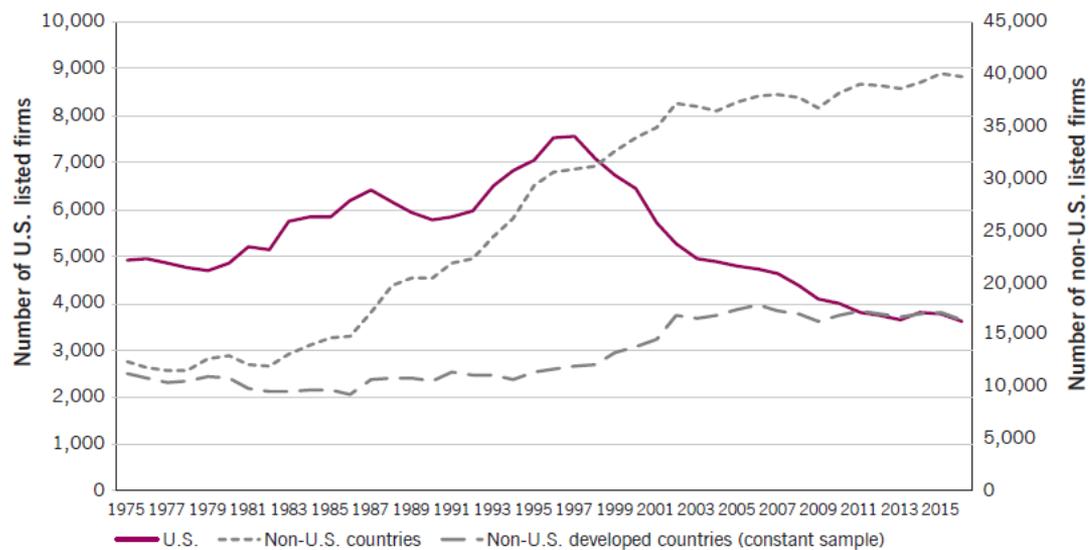
Source: NPD Group  
The Wall Street Journal



# Delivery Robot



Figure 2 Number of listed firms



# Conclusions

- As always the case with Rene's papers—I learned a lot.
- Full of valuable and interesting facts that challenge our thinking of how (public) financial markets work
- Extremely important issue with far-reaching and relevant policy implications