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Original Articles

The State of the Public Corporation: Not So Much an Eclipse as an Evolution

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Abstract

By some measures, the U.S. public corporation appears to be in the midst of a significant decline, as Michael Jensen predicted 25 years ago in a *Harvard Business Review* article called "The Eclipse of the Public Corporation." Based on an analysis of ten industries during the 48-year period from 1966 through the end of 2013, the author reports a 60% drop in the number of publicly traded U.S. companies, as measured from each of the industry peaks to the end of 2013. Mergers and acquisitions, together with the private-equity transactions hailed by Jensen in his 1989 *HBR* article, have contributed significantly to this reduction in numbers. But so has the remarkable growth of "uncorporate" (or pass-through) structures such as Master Limited Partnerships (MLPs) and Real Estate Investment Trusts (REITs), both of which address governance as well as tax problems faced by public C-corporations.

But along with this drop in numbers, the author's analysis of the performance of U.S. public companies—as measured both by operating returns on equity and Tobin's Q ratios—also shows a growing separation of the "best" from the "rest" over time. Intense global product market competition, the growing benefits (and urgency) of achieving efficient scope and scale, high U.S. corporate income tax rates, and a vigorous market for corporate control are all significantly "thinning the herd" of public corporations. The "winners" have been emerging as larger, more efficient, and more influential enterprises than ever before, as the rise of massive U.S. multinationals (and, in countries outside the U.S., state-owned enterprises) over the past two decades has increasingly blurred the line between private business and government.

Citing Literature

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