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INVESTMENT IN INNOVATION IS KEY TO COMPETITIVENESS AND SUSTAINED PROSPERITY

Emphasis of Corporate Governance Should Shift to Long-Term Investment in Organizational Learning

ANNANDALE-ON-HUDSON, N.Y.--For American corporations to remain competitive in the global market they must adopt innovative investment strategies, specifically, investment in collective and cumulative learning throughout their organizations, according to Levy Institute Research Associates William Lazonick and Mary O'Sullivan.

"The challenge to high value-added industry in the United States has come from enterprises that have gained competitive advantage not by paying lower wages than American companies pay, but by developing and utilizing broader and deeper skill bases than American companies do," the authors write in the Levy Institute Public Policy Brief ***Investment in Innovation.***

Lazonick and O'Sullivan contend that American corporations have tended to make investment and operational decisions to achieve immediate returns to stockholders at the expense of investment in their employee skill base. While downsizing has resulted in greater cost efficiencies for American firms, it could also be exacerbating job insecurity, high turnover among skilled workers, and the decline in stable, well-paying jobs.

"Sustainable prosperity in the United States now requires that U.S. industrial corporations invest in broader and deeper skill bases," the authors write. "Such investments require strategic decision making by corporate managers who have the ability and incentive to commit financial resources to learning processes that are collective and cumulative. Both the ability and the incentive derive from the integration of the managers into these processes of organizational learning."

Lazonick and O'Sullivan conclude that in order for U.S. corporations to remain competitive, the corporate governance system must be based on a concept of "organizational" control, which emphasizes value creation, rather than stockholder, managerial, or stakeholder control, which emphasize value extraction.

"To promote sustainable prosperity, corporate governance must be concerned with investment in social organization that can generate innovation and sustained competitive advantage," they write. Innovative investment makes corporate returns sustainable into the future, and corporate competitive advantage in the market contributes to making prosperity sustainable in the nation.

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