Myles Shaver of the University of Minnesota's Carlson School of Management

State's headquarters economy yields exceptionally strong managerial, professional talent base

A Civic Caucus Focus on Human Capital Interview

September 4, 2015

Present

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Summary

On a per capita basis, Minnesota is home to more Fortune 500 companies than any other state in the country, cites Myles Shaver of the University of Minnesota's Carlson School of Management. In 2011, Minnesota was home to 20 Fortune 500 companies. In addition, he says, in terms of the size of the state's economy, it's the most headquartered state by an order of magnitude.

In 1955, Minnesota had 11 Fortune 500 companies in the state. The fact that Minnesota gained a net of nine Fortune 500 companies between 1955 and 2011 is an experience different from nearly every other northern industrialized state in the country, Shaver points out. And Minnesota had the biggest growth in Fortune 500 companies over that time period compared to its population growth of any state in the country.

He says the net gain of nine of those companies was almost entirely due to companies that organically grew locally, rather than companies moving their headquarters to the state. That experience is very different from that of other metro areas that saw big growth in Fortune 500 companies during that time period, such as Atlanta or Phoenix.
He points out that Fortune 500 companies include only publicly traded firms. But there are many privately held companies headquartered in Minnesota. In addition, the state has a number of firms that are headquartered elsewhere, but have major business divisions with high numbers of professional employees located here.

The headquarters phenomenon in Minnesota means there is a large population of managerial, administrative and professional talent located here, Shaver says. It's hard to recruit those people to the state, but once they are here, they don't want to leave. From 2007 to 2011, the out-migration of that managerial population was the lowest among the country's 25 largest metro areas, he reports. The diversity of the state's economy allows that population to jump across companies here, rather than to jump across regions.

**Biography**

Myles Shaver is professor of strategic management and entrepreneurship in the Carlson School of Management at the University of Minnesota. There he holds the Pond Family Chair in teaching and advancement of free enterprise principles. In addition, he holds the 2015-2016 Fesler-Lampert Chair in Urban and Regional Affairs at the University's Center for Urban and Regional Affairs (CURA).

Shaver's areas of expertise include corporate headquarters strategies, the management and economics of international expansion, mergers and acquisitions, and investment location choice. His research on firm strategies to profitably expand is published in leading scholarly journals and he is invited to present his research at conferences and universities around the world. He has received numerous awards for his classes on corporate strategy and corporate responsibility. In addition to other awards, Poets and Quants (a news website devoted to the coverage of business schools and MBA degrees) profiled him in its compilation of the "World's 50 Best Business School Professors."

Born and raised in Edmonton, Alberta, Shaver received his bachelor of commerce degree from the University of Alberta and his Ph.D. degree in international business at the University of Michigan.

**Background**

The Civic Caucus has released two recent statements on human capital: one in September 2014 laying out the human-capital challenges facing the state today and in coming years and a follow-up paper in January 2015 offering recommendations for maintaining a high-quality workforce in Minnesota. The Civic Caucus interviewed Myles Shaver of the University of Minnesota's Carlson School to learn more about the highly educated managerial, administrative and professional workforce in the Twin Cities area.

**Discussion**

In 2011, the Twin Cities area was home to the headquarters of 19 Fortune 500 firms in 17 different industries. Also, said Myles Shaver of the Carlson School of Management at the University
of Minnesota, the country's biggest privately held company (Cargill, Inc.) is located here. "As a business school professor, this is an amazing place to work," he said, "because it's an amazing economy."

Shaver said there is no obvious reason for those companies locating their headquarters in the Twin Cities. "We have industry clusters (medical devices and big agribusiness, for example) but none of those rules the economy," he said. "We have an amazing diversity. There's a historical reason for every business located here. But there's no obvious reason medical device or retail companies have to be located here."

**The Twin Cities is a headquarters town.** Shaver said when he started his research on comparing the Twin Cities with other regions, he knew it was a headquarters town, but soon learned exactly how much so. Looking at Minnesota in general, in 2011, there were 20 Fortune 500 companies in the state, he said. On a per capita basis, Minnesota had the most Fortune 500 headquarters in the country in 2011. And in terms of the size of the economy, it was the most headquartered state by an order of magnitude. In 1955, there were 11 Fortune 500 companies in the state. "We've been a headquarters state for awhile," he said.

The fact that Minnesota gained a net of nine Fortune 500 companies between 1955 and 2011 is an experience different from just about every other northern industrialized state in the country, Shaver said. For example, Wisconsin had 11 Fortune 500 companies in 1955 and nine in 2011. Minnesota's net gain of nine companies during that time, he said, was actually the result of the state adding 40 Fortune 500 companies and losing 31. "There is a lot of churn in the Fortune 500 companies," he said.

He called "striking" the fact that only one of the 40 companies added was from a headquarters move to Minnesota. "The rest are companies that organically grew locally," he said. That experience is very different from that of other metro areas that saw big growth in Fortune 500 companies during that time period, such as Atlanta or Phoenix. "Places like that get lots of headquarter movement in."

He noted that only a small fraction of the loss of 31 Fortune 500 companies over that time period involved companies moving their headquarters elsewhere. Many companies also dropped off the list as they were overtaken or acquired by other companies.

**A lot of explanations for location of headquarters companies don't really hold here.** "We need a new explanation," Shaver said. "Anything about headquarters has to be a story about human capital." The one kind of capital that is in every headquarters company is professional management and administrative skills. "The headquarters is the control center," he said.

States where the number of Fortune 500 companies grew very quickly from 1955 to 2011 include Texas and California, he said. But Minnesota had the biggest growth in the number of Fortune 500 companies compared to its population growth during that time period. He said Nebraska also ranked high on that measure. In response to an interviewer's question, Shaver said in 2011, Seattle (with eight) and Denver (with 10) both had a number of headquarters companies, while Portland only had two, Nike and Precision Castparts.
Fortune 500 companies include only publicly traded firms, he said. But there are lots of privately held companies headquartered in Minnesota, some of them large, with Cargill, Carlson Companies, Andersen Windows, Mortenson Construction and Holiday Stationstores each having over $2 billion in annual sales. And Shaver said companies that get completely overlooked in this discussion are firms that are headquartered elsewhere, but have major business divisions with high numbers of professional employees located in Minnesota. They have the same associated type of talent here that the Minnesota headquarters companies have.

For example, he noted that Wells Fargo has over 20,000 employees here; Thomson Reuters has 7,500; Boston Scientific has 2,500; and Cummins Power Generation has 2,000.

There are unique attributes that have helped define the business culture in Minnesota. An interviewer commented that over time those attributes have included:

1. The attitudes and values brought here early on from New England;
2. The state's very homogeneous population over the years; and
3. The lack of regional competition, since the Twin Cities' trade area extends west to the Rocky Mountains, down to Kansas City and out to Denver.

Shaver agreed that the Twin Cities' geographic location was "an important part of the seed" for the growth of headquarters companies here. The metro area draws a workforce from a large area, he said. The Twin Cities are a magnet for professionals leaving the Dakotas, Iowa, Wisconsin and Nebraska.

In 2012, the Twin Cities ranked 10th on per capita income among the largest 25 metro areas in the country and ninth when adjusted for the cost of living. Shaver said the median household income for the Twin Cities ranks fifth highest and second highest when adjusted for the cost of living.

He asserted that there are three possible explanations why the Twin Cities are 10th in per capita income, but fifth in median household income:

1. There are disproportionately more dual-income families here. If you're college educated, it's 90 percent likely that your spouse is also college educated.
2. There are more households with children here, lowering per capita income.
3. Per capita and median household income will deviate massively if there are huge income disparities and we don't have that here.

Managerial and administrative talent is often not industry-bound. Shaver said there are very high-profile examples of people moving across industries in the Twin Cities, often bringing managerial practices with them. One example is when Medtronic was struggling in the mid-1980s, it brought in Win Wallin as CEO. He had been president and COO of Pillsbury.
This does not happen everywhere, Shaver said. He said it's difficult to recruit people to Minnesota, but recruiters say it's impossible to get them to leave. That results in a managerial and professional talent base more likely to jump across companies here, rather than to jump across regions.

Because this talent pool tends to be well educated and well compensated, he examined the migration pattern of people with four or more years of college, who are employed and have households earning over $100,000 per year. According to the American Community Survey, from 2007 to 2011, the out-migration of that managerial population from the Twin Cities area was the lowest among the country's 25 largest metro areas.

The metro area's outflow rate for its managerial population is extremely low, Shaver said, as is the inflow rate, which ranks 19th. That pattern, however, does not hold as strongly for the population in general here. This population inflow/outflow difference between the general and managerial populations becomes even more magnified when narrowing the managerial population to that having a school-aged child. "We look different from the other major metros in the U.S.,” he said.

The outmigration of managerial talent from the Twin Cities has been extremely low for at least 30 to 40 years, he said. Even though the inflow has also been low, there has been a net positive gain in that population.

**The managerial population is not attracted to an area because it's a nice place to live; they move because of jobs and economic opportunities.** Once they're here, though, Shaver said quality-of-life factors play a bigger role as an anchor.

**The way in which the Twin Cities' economy is growing means we must rely on in-migration.** "There's no way this location could generate that much talent," Shaver said. The colleges and universities here do a great job, he said, but sometimes companies require particular skills and, as they become more international, different worldviews. "Our ability to attract talent like that is hugely important."

**People come here for college and they stay.** Shaver said that trend hurts the Carlson School in national rankings of business schools. National recruiters come to town and offer upcoming graduates jobs that a large share of them decline in order to take jobs locally. "The fact that they don't have to move to get a good job hurts our national reputation, because the rest of the world doesn't see our graduates," he said.

**We're not doing well in recruiting African American talent here.** Many people tell me this is a hard place to get people of color to move to, Shaver said. "It's a hard place to break into for nonwhite professionals, because social circles here are so tight." When talking about the achievement gap, he said, it's important we make sure every person already here has an opportunity to contribute. "This economy in particular draws disproportionately on highly educated people in terms of the required skill sets," he said. "To be a full participant in this economy, you have to look like that. That raises policy questions if we want to see advancement."

He commented that if social circles here are so tight, we risk becoming myopic. "You break that by immigration and by having students who've grown up here spend part of their lives elsewhere, such as going to college and then coming back."
Looking historically at the businesses in the Twin Cities, it's astonishing how the University of Minnesota (U of M) has touched those businesses directly or indirectly. "It's a really striking influence," Shaver said. "It still continues to play that role. We are a magnet for students from all over the world." He said restricting the discussion of the impact of the U of M only to technology is myopic. "If you take a look at any major corporation in the world, people in managerial and professional ranks come from all kinds of backgrounds. Business school grads are only a part of the managerial population."

**The Twin Cities has an impressive talent base that a lot of other regions don't have.** Shaver said that makes him more optimistic about the metro area's economic future than some other people are. He said our education system competes well internationally. "If we do nothing, we'll be in trouble, but we start from a good spot. It's better to build on that. But there are lots of places that are not starting from the same spot we are. That's why I'm optimistic."

In response to an interviewer's question, Shaver said that if he were governor, his single most important job would be to look at what he's doing to support and develop human capital in Minnesota's economy. "Are we an inviting place for human capital from around the world? Are we doing what we can to retain the human capital we have here? Are we giving every person the chance to advance his or her human capital? It's not the same as putting a bet on this industry or that industry. I want to put a bet on bright people."

**The way we ensure companies in the Twin Cities don't move is to make them believe they can't, because they'd lose too much.** "Companies that stay here don't stay out of the goodness of their hearts," Shaver said. "There's an economic reason. It's too costly to move because of what they'll lose in talent."

**Allowing states to use economic incentives to try to attract businesses from elsewhere results in a net loss.** "In the abstract, I don't like it," Shaver said. "In reality, according to the *New York Times*, Minnesota ranks 41st on state spending on attracting business (45th on a per capita basis), while Texas ranks number one. It's a net loss if we let states throw money at businesses, but if we let somebody else do it, what does it mean if we don't?"