

# THE POWER OF IDEAS? THE POSSIBILITY OF A MYTH OF SHAREHOLDER VALUE

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Of late, the business news has battered the reputation of modern capitalism as rational and efficient. As portrayed in the headlines, leaders of industry appear driven by status anxiety and hormones and pride, as well as greed of impressive proportions, rather than the pursuit of efficient production and expanded market share. In "Corporate Malfesance and the Myth of Shareholder Value," Frank Dobbin and Dirk Zorn explore the sources of this latest outbreak of speculation and fraud. They locate the source in the new power of business professionals, specifically stock analysts, in constructing a metric of value driven by the *expected* earnings (or losses) of publicly held companies. As executive compensation included ever-larger quantities of stock options, executives and stock analysts, along with institutional investors, have become entwined in a system of incentives which encourages the manipulation of these expectations, often at the expense of sustaining a productive and profitable enterprise. Rather than being driven by status anxiety, hormones or greed, financial misbehavior is both rational and rewarding.

For Dobbin and Zorn, the basic causal narrative begins with new ideas, in the domain of Robert Reich's (1991) "symbolic analysts." Informed by agency theory, large institutional investors supported a shift in the composition of

executive compensation; the increased distribution of stock options was intended to align the interests of corporate management and shareholders. Pressured by both a turn from portfolio theories of the firm by professional economists and the distaste of stock analysts for diversified companies with ambiguous identities (Zuckerman, 2000; Lounsbury & Rao, 2004), company executives abandoned strategies of growth through diversification and, instead, entered into a symbiotic relationship with stock analysts. Analysts produced statements of expected revenues; company executives tweaked (and, sometimes, invented or disappeared) revenues in order to meet those expectations.

By locating the source of this financial behavior in a complex of incentives, Dobbin and Zorn provide a valuable corrective to arguments that attribute financial misbehavior to either individual vice or the “bad culture” of the specific corporations as well as the times more generally. They remind us that the social character of markets does not lie only in networks, but also in the cultural templates that organize action (Krippner, 2001). The authors also provide reason for pessimism when it comes to reform. So long as the incentives for analysts, management, and institutional investors are aligned in this fashion, the returns to massaging corporate revenues will persist. In their telling, American politics has little recourse against the increasing share of national income appropriated by these business professionals.

In making a case for skepticism with respect to regulatory reform, therefore, Dobbin and Zorn are also making a more general argument about the changing nature of power, both political and economic:

[T]his new corporate strategy was an idea hatched not by corporate executives, as was the case with previous strategies, and not by shareholders, as mythology suggests, but by professional groups in financial markets. Those groups managed to change the behavior of firms. These weren't robber barons in cigar-filled rooms, but MBAs and CPAs working within large financial institutions. The idea that the power elite is comprised of capitalists and captains of industry now seems antiquated – knowledge workers who redefined corporate efficiency were among the biggest beneficiaries of these changes (p. 3).

In advancing this claim, Dobbin and Zorn borrow both an established imagery and a handy shortcut from political theory to economic sociology. In emphasizing the role of business professionals, they invoke a cognitive or expert-based understanding of power shared by theorists as diverse as Michel Foucault and Theda Skocpol with her call to “bring the state back in.” Yet whereas political sociologists have had to infer the interests of state bureaucrats and professionals from their formal appointments, assuming that they will profit from the increased size or influence of their agencies, Dobbin and Zorn find a ready tool in the basic question: who benefits? The

high salaries and extravagant perks of business professionals constitute evidence of their power or causal significance. Thus their pessimism with respect to reform rests on a sense that this pattern of malfeasance is securely locked-in by generous returns to the individuals involved, making the current organization of financial markets more secure than the public bureaucracies whose modestly paid leadership proved vulnerable to the campaigns of an ideologically driven movement to dismantle the state.

Read in this fashion, contemporary corporate malfeasance takes its place in a long tradition, reaching back to seers and shamans, in which those with special powers or expertise extract wealth from the rest of society. The stock analysts and business consultants are the latest groups to invent a cure-all or revitalizing tonic, or theology that merits lavish rewards. Yet, as Dorothy and her companions recognized in the Emerald City, sometimes one must look behind the curtain in order to understand the different forms of power and their relation to distinctive settings. For Dobbin and Zorn's account of the power of business professionals to construct new definitions of value and gain financial advantage, the challenge is to understand the extent to which these accomplishments represent either power over other actors in the system or a necessary causal role in shifting economic development in a decisive manner.

Consider first the relationship between stock analysts and corporate management. Dobbin and Zorn initially bracket the question of how expectations of financial performance are themselves constructed. Stock analysts would seem to have the upper hand in as much as executives "massaged profit reports to keep their companies on analysts 'buy' lists" (p. 1) or "put all of their energy into meeting the profit projections of securities analysts" (p. 5). Here the claims generated by analysts are treated as prior to the efforts of managers to meet those claims. Yet such an attribution of power must be qualified in light of the fact that analysts who issued unfavorable reports were often punished by the loss of access to company executives (Phillips & Zuckerman, 2001, pp. 396–399). As Dobbin and Zorn acknowledge, firms "began to issue earnings preannouncements, to bring analysts' forecasts into line with their own forecasts" (p. 19). And, of course, some firms and investors continued in their old-fashioned ways: focusing on improving production, increasing market share, and even satisfying their workers and customers.

But even if some firms and investors opted out of, or failed to gain entrance to, the conversation among analysts and managers, many were caught up. Among the different types of business professionals – stock analysts, and corporate managers, and institutional investors – it is difficult to disentangle the dimensions of influence and interdependence in order to

come to clear conclusions about the distribution of power. It's not clear who is gaming whom. Yet, Dobbin and Zorn's broader point about the construction of value holds. In contemporary economies, many of the biggest exchanges involve projected revenues, potential markets, and trajectories of innovation. In an important sense, the most expensive items in the modern economy are virtual constructions of value. Consequently, a case for the proximate causality of business professionals is compelling.

By focusing so tightly on business professionals, however, Dobbin and Zorn direct attention away from the conditions that make this kind of constructionist or ideational power both possible and potent. The misdeeds of corporate managers and stock analysts make a larger point about the dimensions of political economy. The power that stems from the construction of financial theory is multiplied by – or conditional on – a broader financialization of modern economies that cannot be attributed so directly to business professionals as opposed to other elites endowed with other kinds of power.

Although the stylized legacy of Marx continues to privilege relations of production or employment, studies of economies both past and present remind us that multiple systems of relationships structure the circulation of resources. Credit, partnership, marriage, and neighborhood ties mutually constituted the structure of power in Renaissance Florence (Padgett, 2001); labor, credit, and commodity markets have co-constituted the class politics of the United States (Wiley, 1967). Recognizing that workers may also be owners of stock, particularly through the expanding domain of mutual funds and contribution-driven retirement schemes, some analysts (Drucker, 1976) championed "pension fund socialism," a theme echoed in the references to an "investor society" in the presidential campaign of 2004. Yet socialism for whom? Employees have increasingly been shifted from guaranteed traditional pensions to defined-benefit investment plans, with their less predictable returns, as the basis for retirement. Ownership of equities, even more than income, is concentrated at the top of the distribution of wealth (Phillips 2002, pp. 108–147). Thus, the broader point is that class politics in the United States are increasingly structured through relationships and standing within equity markets. The question of "who benefits?" directs attention to the investor class broadly, of whom Dobbin and Zorn's business professionals are a part, but certainly not the whole. To address the question of power in contemporary capitalist democracies, we would need to consider the other elements of this investment class who acted to establish the conditions – new pension laws, new financial regulation – that made the ideational work of business professionals so very consequential.

Dobbin and Zorn's own language reveals some unease about the relationship between the business professionals in the foreground and the broader politics of wealth.

It was happenstance (the baby boom) that pension investments grew by leaps and bounds and were increasingly put into the stock market, leading institutional investors to control the majority of stock in major corporations. It was happenstance that the high technology boom would replace the conventional metric of corporate success, profits, with the arms-length metric of meeting analysts' profit/loss projects. But the new shareholder value model of the firm was also the result of professional strategizing by groups that were empowered by these historical shifts, institutional investors in the first place and securities analysts in the second (pp. 3–4).

At stake here is whether we take "who benefits?" to be a decisive indicator of power, either political or economic. Are we to understand business professionals as masters of their own universe or as lackeys well-positioned to sweep up the deluxe crumbs of a massive economy and a polity surrendering the mechanisms that had compressed inequalities of wealth for half a century? A counter-factual may be helpful. Assume that the portfolio theory of the firm remained dominant among financial theorists. Assume that stock analysts cultivated a taste for complex firms with ambiguous identities, a taste that would create a wider field for differentiation or distinction among analysts. Given the rapid increase in the size of the equity markets, driven in part by the financialization of personal savings through mutual funds and defined-contribution retirement programs (Shiller, 2000, pp. 17–43), would we expect to see an increase in corporate malfeasance?

The answer to this question matters for deciding what, if any, are the possible political responses to the current wave of corporate malfeasance. Dobbin and Zorn locate business professionals and their ideas at the center of their argument, but then rightly warn that so long as these ideas remain manifested as a system of incentives, the temptations to bend or break the rules will continue to induce financial misbehavior. Thus, political reform appears impotent unless business professionals for some reason change their minds and advance new theories of the firm. If current patterns of corporate malfeasance are understood as flowing from the broader financialization of American life - and the power relations within the equity market - the prospects for regulatory reform of the investment industry remain bleak. But this reframing does open up a different, if no less daunting, field for political mobilization and challenge to the broader system of economic relationships that structure the American politics and society.

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