

# **The Myth of the Shareholder Revolution and the Financialization of the Firm**

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# **The Myth of the Shareholder Revolution and the Financialization of the Firm**

This article re-examines the shareholder value revolution of the 1980s to challenge the dominant conception of the financialization of the firm. This transformation is widely interpreted as a re-alignment of corporate management in response to growing shareholder power and neoliberal managerial norms associated notably with agency theory. By contrast, we demonstrate how the financialization of the firm has its roots in the innovations made in 1960s America by a small group of outsider firms, the conglomerates, to challenge the corporate establishment. As we show, these firms pioneered financial techniques that profoundly transformed the nature of corporate strategy and launched a process of financialization as firms began to exploit the leverage financial markets could provide in various corporate contests. Taking stock of this historical lineage leads us to re-interpret the shareholder revolution of the 1980s. We demonstrate how the key features of this era: the orientation of firms towards capital market, the increase in shareholder activism, and the rise of agency theory, should be read as unintended outcomes of the success of financialized management and its destabilizing effects on corporate governance.

## **1. Introduction**

In his influential book, *The Transformation of Corporate Control*, Neil Fligstein (1990) argues that the financialization of the firm should be traced back to the late 1950s and 1960s. As he later put it, ‘all of the financial forms of reorganization including mergers, divestures, leveraged buyouts, the accumulation of debt and stock repurchasing were invented or perfected in this period’ (Fligstein and Markowitz, 1993: 193). Various authors have followed suit, pointing to the growing financial orientation of firms since the 1960s (Zorn, 2004, Lazonick, 1992). By these accounts, corporate decision-making became increasingly determined by a financial bottom line, with the activities of firms

being judged according to their financial performance.

These important contributions about the history of corporate governance, however, have had little impact on how the financialization of the firm since the 1980s has been understood. The paradigmatic political economy contributions on the subject do not refer to the earlier developments covered by Fligstein (see O’Sullivan 2001, Orhangazi 2008, Aglietta and Rébérioux 2005, Krippner 2005, Roe 2006, van der Zwan 2014, Lazonick 2014, Mazzucato 2018). Even the few who do, such as Dobbin or Fligstein himself, minimize the significance of this early history and reaffirm the view of the broader scholarship. As a result, the post-1980 era has too often been misunderstood as an attempt to dismantle, rather than build upon, the legacy of this early financialization of the firm (see Davis, Diekmann and Tinsley, 1994). From this perspective, the financialization of the firm is cast as a shareholder revolution that took place in the 1980s; a response to the managerial abuses of the post war era when sprawling and diversified multidivisional-form (M-form) companies were built at the ‘expense of efficiency’ (Mason 2015; Davis 2011). This decade seemingly marked a turning point, with shareholders imposing discipline on managers in the form of new norms of management better geared towards serving shareholder interests.

This article seeks to root more firmly the financialization of the firm and the shareholder revolution in the innovations of the 1960s. We take this earlier history of the financialization of the firm<sup>1</sup> in the United States as an insightful case to gain perspective on the social aspects of this transformation.<sup>2</sup> As we show, this early history profoundly changes the perspective we have on the so-called shareholder revolution that took place

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<sup>1</sup> While there are some who argue iterations of financialization can be found throughout a 500-year history of capitalism, the vast majority of the literature on the financialization of the firm focuses on developments that have taken place since the 1970s (see van der Zwan 2014).

<sup>2</sup> In Britain, NFCs underwent a similar shift at a similar time but the early financialized NFCs like Slater Walker explicitly took inspiration from the American originators (Slater 1978: 91).

in the 1980s and early 1990s. We single out more specifically three aspects that are often associated with the idea of a shareholder revolution: 1) the re-orientation of corporate management towards financial markets, notably with the growing concern with the value of shares; 2) the rise of shareholder activism and; 3) the emergence of new managerial techniques or templates based on the idea of shareholder value maximization. As we argue, these three changes have roots in a longer process and should be considered, in fact, as the *second* phase in a transformation of corporate governance that was initially triggered in the 1960s by the arrival of the conglomerates.

The term conglomerate is now broadly used to refer to a type of firm that dominated the 1960s and to highlight the propensity of these corporations to diversify through mergers. However, we show that this reading is partly misleading and stems from the way corporate governance was later politicized in the 1970s and 1980s. Initially, the term conglomerate was used for a different purpose. It referred to emerging firms that were characterized by their financialized approach to management. Instead of simply focusing on diversification, these firms developed *new forms of power based on leveraging their operations on financial markets*. This fueled an aggressive strategy of mergers and acquisitions that became a threat for the corporate establishment.

While these practices were pioneered in the 1960s, they grew to new proportions when they were generalized in the 1980s with the advent of the corporate raiders. We show how financialized management then politicized corporate governance with regular attempts by managers to mobilize public opinion, regulatory agencies and legal recourses. This generated responses by various stakeholders destabilized by the practices of financialized management. We argue that it accounts for the rise of shareholder activism, the broader struggles over the norms of corporate governance, which involved academics and consultants, and the growing concern of established corporations with their financial

standings. From this perspective, the shareholder revolution of the 1980s was the unintended outcome of political contests *among* different groups of corporations, rather than the product of the external imposition of *shareholder preferences* on corporate America as a whole.

This historical perspective, we contend, is of great political significance since it profoundly changes what we assume to be politically at stake in debates over shareholder value. Concerns with shareholders stopping corporations from considering other stakeholders has too often played into the hand of executive-level managers, whose vast earnings is a key feature of the inequality of contemporary capitalism (Piketty 2017). Blaming shareholder demands has too often served to deresponsibilize these managers when there is clear evidence they have largely been leading changes in corporate governance. Recasting the financialisation of the firm as a process of managerial empowerment allows us to redirect the focus for political action onto the actual decision makers in corporations, rather than the market environment that supposedly limits their alternatives.

In developing this argument, our aim is mainly conceptual. Following a radical historicist approach (see Knafo 2010, Knafo and Teschke 2017), we revisit well-established historical facts that are too often neglected in this literature in order to draw out their implications for the way we theorise the financialisation of the firm. We argue that looking at the origins of the financialisation of the firm allows to better appreciate the departure that was involved in this process. First, we examine the literature on the financialization of the firm to show how a structural bias has led scholars to lend too much power to shareholders and underestimate the role of corporate managers as the agents of the financialization of corporate governance. The following section makes the case for taking a broader historical perspective on the financialization of the firm. As we show,

the fact that many of its features were already present in the 1960s, long before the shareholder revolution, forces us to reconsider the political economy of financialization. We show here that it was associated with new strategies for corporate empowerment that became codified ultimately by management consultants in the late 1980s. The final section lays out the implications for the way we conceive of the financialization of the firm. We do so by showing how each of the three features of the shareholder revolution of the 1980s (i.e. the focus on financial markets, the rise of shareholder activism and the developments of agency theory) can be better explained as outcomes of the early financialization of the firm rather than exogenous factors that structured firms ‘from the outside’.

## **2. A Case of Neglected History: The Early Financialization of the Firm**

The concept of financialization appeared in the 1990s on the back of a wave of shareholders activism that was hitting corporations. Struck by what seemed at the time like a radical inversion of the corporate hierarchy, scholars began to reflect on the implications of what they perceived as shareholders reclaiming control from managers (Useem 1996; Duménil and Lévy 2004). The notion of financialization was then put forward to highlight what appeared as a new approach to management driven by a financial rationale. It came to represent what was taken as the takeover of production by finance.

We show, in this section, how this attempt to grasp the novelty of the practices that appeared in the 1980s led scholars to downplay previous innovations in corporate strategy. As a result, what was by the 1990s a relatively established fact - that the merger wave of the 1960s had been driven by firms leveraging on capital markets (Espeland &

Hirsch, 1990; Fligstein, 1990; Lazonick, 1992, p. 467) - had mostly been written out the story. Despite awareness of this early history, it no longer registered in the way scholars *conceived* of the financialization of the firm.

A good example of this type of framing can be found in what is perhaps the most influential account of the financialization of the firm: William Lazonick and Mary O'sullivan's article entitled 'Maximising Shareholder Value' (2000). They present the shareholder revolution as a response to the crisis of a 'retain and reinvest model' which dominated the post war era. This was a period, they argue, led by giant corporations which retained their resources and re-invested their profits towards further growth. This model would have run into trouble in the 1970s when corporations became bloated as they reached unmanageable size with too many divisions. Their sprawling structures meant that central offices, where strategic decisions were made, grew increasingly distant from the units where resources were utilized (O'sullivan, 2001: 110). The result was poor decision-making and misallocation of resources. It made corporations less competitive precisely at the time when they confronted the rise of Japanese competitors that ate into their profit margins.

According to Lazonick and O'sullivan, shareholders responded to this situation by reasserting their interests. With the rise of institutional funds, which concentrated equity ownership, shareholders were able to enforce a new 'downsize and distribute' model of corporate governance that encouraged the systematic liquidation by corporations of their non-performing assets so that the returns could be redistributed to shareholders and reinvested in more profitable ventures. This agenda prioritizing short term results drew support from new neoliberal ideas about corporate governance, such as agency theory, that called for greater discipline to be imposed on managers in order to ensure that they deliver value to shareholders (Lazonick and O'sullivan, 2000: 16). It

legitimated the use of stock options to instrumentalize managers by promising handsome benefits to those who served shareholder interests. Those who failed to do so, however, would run the risk of seeing the value of their shares plummet making them vulnerable to hostile takeovers.

This reading of the shareholder revolution has proven hugely influential (see for example Mazzucato 2018, Mason 2015) partly because of its conceptual clarity. However, it reflects the limitations of a structural account that periodize corporate governance as a series of dominant ‘models’. Most importantly, it has led Lazonick and O’Sullivan to underestimate the differences in corporate practices *within* each of these periods. In particular, their retain and reinvest model conflates two types of corporations that need to be distinguished in order to grasp the conflicts that animated the financialization of the firm: M-form corporations and the conglomerates. The M-form corporation was born in the 1920s when an older form of organization based on functional units defined by activities (finance, advertisement, sales etc.) was replaced by a structure of management based on divisions (defined by products). This shift has often been explained by the diversification in the activities of corporations at the time. Since the operations of units producing very different things could no longer be realistically unified, the solution was to organize management around divisions. It was a new structure of the firm that favored a reliance on a financial baseline to facilitate central management by making the diverse product lines and divisions of the firm commensurable. By contrast, the second type of firm, the conglomerates, represented a more specific group of firms that emerged in the late 1950s and 1960s. As we will see, the distinct feature of these firms was that they leveraged their operations on financial markets, basically raising huge sums through the systematic issue of shares and bonds in order to fuel corporate growth through mergers and acquisitions.



By subsuming the conglomerates into the broader category of diversified firms, Lazonick and O’Sullivan misread key features. They treat the financial innovations the conglomerates develop as straightforward strategies of productive diversification that typified M-form companies. As a result, they focus on financial accounting, which was common to both types of firms, but neglect the crucial difference: the strategy of capitalizing on financial markets that was specific to the conglomerates. In fact, they say virtually nothing here about capital markets in the pre-1980 era. If anything, corporations are depicted as somewhat autonomous from these markets because of their reliance on retained profits. As a result, the conglomerates appear as part of what the shareholder revolution was reacting against (i.e. the practices of diversified and bloated corporations).

This conflation also leads Lazonick and O’Sullivan to depoliticize corporate governance. For in downplaying differences in management practices, they end up neglecting the corporate contests that were born out of these differences. As a result, they exaggerate the stability of these periods and are thus forced to look elsewhere when seeking to explain change. This explains why they rely on ‘external’ factors or structural conditions to explain why a model of management emerged. In particular, Lazonick and O’Sullivan attribute the shareholder revolution to the emergence of a new conception of the firm (agency theory) and the rise of new social forces that embraced this new model (in particular institutional funds).

The trappings of such a periodization can be also observed in the work of authors such as Neil Fligstein (1990) who have written about the early history of financialization. Fligstein bases his account of this process on his notion of the financial concept of control (FCC). It emphasizes how financial ideas and templates gained currency in corporate governance with the rise of corporate executives who came from corporate finance. Particularly important, Fligstein argues, was the portfolio approach to the firm which no

longer conceived of the firm as an entity manufacturing and selling products above a certain cost but as “a collection of assets earning different rates of return” (Fligstein, 1990: 239). While this emphasis on the orientation towards financial numbers had been recognized by a wide array of scholars, Fligstein went further by showing how these firms bought and sold divisions depending on their respective profitability or market shares. In this process, Fligstein stressed the particular importance of the acquisitive conglomerates in the 1960s:

‘The most spectacular organizational examples of the new financial conception came from firms outside the mainstream of American corporate life. The men who pioneered the acquisitive conglomerate (Tex Thornton at Textron, Jim Ling at LTV and Harold Geneen at ITT) showed how financial machinations involving debt could be used to produce rapid growth with little investment of capital’. (Fligstein, 2001: 155)

Despite this promising foray, however, Fligstein stumbled when time came to address the shareholder revolution because his periodization made it difficult to reconcile his FCC with accounts of the shareholder revolution. Having posited that each period is dominated by a concept of control, Fligstein, just as Lazonick and O’sullivan, ended up conflating acquisitive conglomerates with the more established diversified firms. Both types of corporations were thus subsumed under his FCC which focused, once more, on the management of the M-Form and the way ‘finance executives reduced the information problem to the rate of return earned by product lines’ in order to make ‘large diversified corporations manageable’ (Fligstein 2001: 155). This led to an overemphasis on financial accounting and a neglect of corporate activities on capital markets.

Having made this conflation, Fligstein struggled to reconcile the early corporate turn to finance in the 1960s with the shareholder revolution. Fligstein’s conceptual struggles to account for the novelty of the 1980s were perhaps best reflected by the fact

that he wrote two similar texts, published eight years apart from one another, that arrived at opposite conclusions on this tricky question. In the first text, written with Linda Markowitz in 1993, Fligstein conceived of the financial reorganization of the 1980s as an intensification of the financial concept of control of the 1960s with its short-term focus on the profitability of product lines (Fligstein and Markowitz, 1993). This piece considerably downplayed changes in the financial concept of control and mostly interpreted the 1980s as the generalization of the financial approach which had emerged in the 1960s. This argument, however, became increasingly untenable by the 1990s when the rise of shareholder value seemed to transform corporate governance in more significant ways than initially believed. With more perspective and the rise of shareholder value norms of management, Fligstein gravitated towards a more conventional account of the shareholder revolution. The cultural background of financially oriented executive initially seen as a driver of financialization was now reduced to a simple 'enabling' factor with the FCC representing now a mere indicator of managers that were 'receptive' to the new shareholder perspective. Having to account for change meant that once more Fligstein was forced to look away from the early financialization of the firm in his attempt to make sense of the shareholder revolution.

Inconsistencies in the way in which the literature conceived of the role of managers in the shareholder revolution were perhaps best brought out by the financial crisis of 2000-1. With the Enron debacle and the multiplication of stories about the abuses of managers, scholars began to question the actual power of shareholders over managers (Froud et al, 2006). By then, it was becoming clear that shareholders were failing to contain managerial pay and shareholder activism itself seemed to be waning. Even Michael Jensen, long seen as an apologist for shareholder value, was then forced to admit

that stock options had not succeeded in aligning the interests of managers with those of shareholders (Jensen, Murphy and Wruck, 2005).

In response to these developments, scholars started assigning a greater role to corporate managers in the story of financialization (Mazucatto 2018; Krier, 2005). Aglietta and Rébérioux (2005) for example, argued that managers had quickly reasserted control over the market for corporate governance and largely led the process of financialization in their own interest. Curiously, however, this new emphasis seemed to change little to the overall story of the shareholder revolution with scholars usually casting managers as shareholders in their own rights. In these accounts, the financialization of the firm was still explained by the new norms established by agency theory and the influence of shareholders. The difference was that now managers were cast as complicit in this shift because they had benefitted from the new approach (Jackson and Petraki, 2011). The financialization of the firm thus came to be read as the product of the new license for managers and shareholders to pillage the resources of the corporations at the expense of other stakeholders (Piketty; 2014). Mizruchi (2010), for example, reinterpreted the shareholder revolution as a breakdown of the corporate establishment, and the various bonds that contained managerial ambitions (notably the waning control of banks and unions over corporations). This would have freed managers to pursue self-enrichment as shareholders (along with other shareholders) at the expense of other stakeholders.

While there is no question that managers have benefitted from these changes, this did little to clarify why or how the shareholder revolution had taken place. For the growing role assigned to managers in the literature made it unclear whether the shareholder revolution represented a means to discipline or liberate managers. It was an ambiguity reflected in the wide spectrum of perspective ranging from emphasizing how

managers were basically incentivized to serve the interests of shareholders (Ho 2009; van Appeldorn and Horn 2007) to highlighting how managers had in fact exploited shareholder value for their own interest (Krier, 2005; Froud et al, 2006). What remained unclear was why managers had abandoned their old approach if they wielded significant power. Struggling to account for the agency of the key players involved, scholars tended to gravitate instead towards more structural analysis that continued to put the focus on the broad intellectual climate and neoliberal ideas. The rhetoric of free-market ideologues, instead of corporate practices, thus took precedence in these perspectives as agency theory in particular came to be singled out as a key driver behind the financialization of the firm.

In the following section, we seek to recover the politics involved in the making of new norms of management associated with the shareholder revolution. We argue that financialization should be analyzed from the perspective of power and re-interpret the early financialization of the firm as a product of corporate contests that pitted more traditional M-Form corporations to newly emerging corporations that exploited financial markets in ways that threatened the corporate establishment. As we will show, the financialization of the firm thus had more to do with managerial power struggles shaped by the growing importance of financial markets in corporate strategy, than with a new model of corporate governance meant to serve the interest of shareholders.

### **3. Conglomerates and the Financialization of NFCs in the 1960s**

Our central argument is that the financialization of the firm is foremost the story of the construction of new forms of corporate power that involved systematically capitalizing on financial markets. The exploitation of financial markets for the purpose of corporate strategy was pioneered in the 1960s by the conglomerates; a group of firms that

found themselves at the center of a political storm. Indeed, the term conglomerate became popular in the mid-1960s to describe companies, such as Litton, Ling-Temco-Vought (LTV) and Gulf Western whose operations were increasingly oriented towards trading on financial markets (Brooks, 1973: 153). Reflecting this history, economic historians have often used the term conglomerate to refer to firms that grew rapidly through a sustained wave of acquisitions which were powered by financial operations (Berg, 1969). In his study of the conglomerates, for example, Robert Sobel highlights the distinct social lineage of these corporations, pointing out that they were built almost exclusively by outsiders with little previous corporate experience and limited ties to the corporate establishment (Sobel, 1984). Similarly, Baskin and Miranti (1997) make a point of distinguishing between so-called 'center firms' that diversified as part of a strategy to pursue economies of scale and scope in the classic Chandlerian mode and the conglomerates that capitalized on financial dealings meant to exploit loose financial accounting standards and tax rules.

The practices of conglomerates had significant antecedents that go back to the 1920s and the early post war era, but they coalesced in the 1960s into a distinct business model. This decade was marked by the dramatic increase in diversifying mergers with acquiring firms venturing in entirely unrelated industries. The Federal Trade Commission (FTC) reported that 80% of the mergers that took place in between 1965 and 1975 involved such diversifying mergers (Gaughan 2011: 44). Of great importance here was that a significant group of firms used these mergers in financialised ways. They systematically leveraged their operations on financial markets to raise capital and exploited the bull market conditions of the time to make capital gains. Essentially, they created mechanisms for turning promises about future performance into current capital they could use immediately for *financial transactions*, and which they deployed mostly

for the purpose of corporate growth through acquisitions. In this way, they were able to create a seemingly virtuous cycle whereby ever-growing acquisitions could be financed by issuing more securities backed by their widening trove of assets or by selling assets captured through these acquisitions.

This conglomerate strategy based on aggressive acquisitions led to power struggles that opposed the new contenders to the corporate establishment. With their complex financial maneuvers, conglomerates were perceived as a threat to the US corporate establishment and generated a strong political response. Numerous regulators in the late 1960s spoke out against conglomerates and expressed their concerns regarding what they saw as new forms of management driven foremost by financial, rather than productive, considerations. This was the view repeatedly voiced, for example, by the Federal Trade Commission and taken up by Hamer Budge, the chairman of the SEC, who complained in 1969 about the accounting manipulations of conglomerates geared towards financial transactions (Greiman, 1970: 711). The controversial nature of these firms can be further gleaned from the fact that separate investigations into the activities of conglomerates were conducted by the SEC, the NY stock exchange, the FCC, the FTC, The House Ways and Means Committee, The Department of Justice, The Interstate Commerce Commission; The Cabinet Committee on Price Stability; The Senate Antitrust and Monopoly Subcommittee and The House Anti-Trust Subcommittee (Espeland & Hirsch, 1990).

The controversial nature of the conglomerate's practices stems from four features that defined what we have called elsewhere a financialized approach to management (Knafo & Dutta, 2016). The first feature, and what most concerned the corporate establishment, was the numerous and aggressive corporate acquisitions made by conglomerates which fueled their dramatic growth. Between 1961 and 1968, five of the

largest conglomerates (Gulf & Western, LTV ITT, Teledyne and Litton Industries) bought 341 firms with assets exceeding \$7.9 billion (Espeland and Hirsch, 1990: 81). The reliance on extensive financial leveraging meant that ultimately no one could feel safe from such acquisitions. Strikingly, the merger and acquisitions of the 1960s represented the first wave in which it was no longer uncommon for smaller firms to take over bigger ones by mobilizing the resources offered by financial markets (Gaughan, 2011: 44; Steiner 1975). A particularly spectacular and much-publicized case was the failed attempt by Leasco Data Processing Equipment Corporation to capture the venerable Chemical Bank. There was indeed something shocking about an eight-year-old firm, with only \$400 million in assets, and managed by a young Saul Steinberg, trying to capitalize on its highly-valued shares to capture one of the most important banks in the US that managed \$9 billion in assets (Brooks, 1973: 228). The takeover collapsed, partly because regulators and bankers refused to support Leasco, an outcome that was interpreted at the time as a closing of the ranks within the establishment to stop a troubling pattern (Goolrick, 1978: 78).

There was nothing reassuring for the establishment in the fact that these firms seemed more interested in financial opportunities than productive synergies (Hyman, 2012). A 1971 report by the House Anti-trust Subcommittee that was investigating the activities of America's largest conglomerates lamented the fact that 'financial considerations and not productivity goals were dominant motivating forces in the postwar merger movement' (in Raw, 1977: 225). This suggested to observers at the time that there was no limit to the wheeling and dealing of these conglomerates which were seemingly aligning acquisitions irrespective of the size of their targets because the goal was never



to properly integrate them in their own operations. Conglomerates such as Litton, LTV, Gulf and Western or Textron, became some of the biggest industrial concerns in America despite few of them having a positive track record at the level of their productive operations. Ninety percent of the growth between 1961-68 of a firm such as Teledyne, for example, could be accounted for by its 125 acquisitions during this period (Winslow, 1973: 2). The main strategy of conglomerates was to target undervalued assets that could be redeployed to further improve the standing of a firm on financial markets or turned into profitable trades down the line. LTV, for example, targeted complex multidivisional firms on the grounds that there was often a big gap between the relatively low value of the shares of these corporations and the value of their assets. This would then make it easy to spin off assets from the targeted firm to pay for the acquisition (Brown, 1999).

Conglomerates also made acquisitions in the pursuit of strategic resources. They became increasingly interested in financial firms that would provide the resources in cash to fund their operations. For example, insurance firms became a privileged target in the late 1960s because they sat on large cash surpluses, as mandated by federal regulations (Brooks, 1973: 234). Bringing these firms under an unregulated holding company was a means to free up these reserves and deploy them for further acquisitions (Winslow, 1973).

The financial orientation of the conglomerates went beyond their strategic interests in undervalued assets. A second contentious aspect of their practices was that their managerial strategies (i.e. within the firm) were geared towards financial markets. In contrast to traditional M-form companies which focused on product lines and their rate of returns, conglomerates restructured the firms they captured with an eye to maximize their ability to further tap capital markets. Corporate divisions were not mainly valued in terms of their product lines and operations, but in terms of their assets and potential impact on financial markets. They were thus managed according to opportunities *on*

*capital markets*. This could mean pursuing policies that would be well-received on the stock market or adopting strategies to maximize the possibilities for capitalizing on financial markets. The use of subsidiaries which could issue their own shares or debt was particularly important in this respect (Prechel 1997; Krier 2005: 8). LTV, for example, became famous for reorganizing its divisions as a means to increase exposure on capital markets and its ability to tap these markets for further acquisitions.

A third feature of the conglomerates was their reliance on great levels of indebtedness. The stock market offered the great pay off for financialized management, but it was *debt* that provided the financial muscle required to pursue their acquisitive strategy. This is why the financial commitments of conglomerates soon came to be seen as disproportionate when compared to their actual capital. Whereas the debt of Gulf & Western had represented 30% of its net worth in 1960, it grew to 150% of net worth by 1968 (Winslow, 1973: 60). This prompted strong criticisms for the gimmicky tactics of these conglomerates that often issued complex securities to pay for other firms ; forms of debt that were derogatively referred to as ‘Chinese paper’ because their trade value was difficult to determine (Bruck, 1988: 38). Regulators were unnerved to see conglomerates unlocking a seemingly virtuous (or vicious) cycle by which their ever-increasing size made it possible for them to raise more and more cash. It resulted in a delicate balancing act revolving around the ability to balance cash flows by capturing assets on the stock market and using them as a basis to secure further financing.

The *fourth* feature of financialized management was the growing accounting and tax manipulations which were associated with the conglomerates. While this has often been attributed to a moral decay of managerial standards that arose with the 1980s raiders, it is arguable that this trend was more directly connected to the imperatives of financialized management. There was growing pressure on conglomerates to cover their

liabilities and perform on capital markets. This meant that they were often pushed to stretch their books to keep their good standing on financial markets. Their use and manipulations of Earnings Per Share (EPS) figures to inflate their achievements became particularly controversial. For example, conglomerates often merged with firms that had a higher EPS to ‘artificially’ raise their own EPS without making any significant changes to their operations (Madrick, 1987). Supporting this technique was the accounting method of pooling that inflated earnings by registering as a cost only the market value of the *assets* of an acquired firm, rather than the actual cost paid for the acquisition, which was frequently higher (Grieman, 1970). By recording the difference as goodwill to be amortized later, conglomerates were able to defer the costs of their assets in ways that inflated their earnings.

All these innovations forged a new form of financialized management that led conglomerates to manage their firms through the lens that financial markets afforded them. Their legacy, however, has often been downplayed because these conglomerates declined dramatically in the 1970s. Having sparked controversy and ridden the waves of booming financial markets to forge their growth-by-acquisition business model, the conglomerates were vulnerable to a turn in financial markets. When, in the 1970s, the equity market turned sour the conglomerates went down with it. Laden with debt and underperforming assets they struggled to respond to depressed financial markets. As a result, the term ‘conglomerate’ acquired a new significance in the 1970s. It became a symbol for what had gone wrong with corporate America where self-interested managers had constructed bloated, sprawling and needlessly diversified firms. Yet, as we argue, these practices were revived in the 1980s to great effect. In fact, we argue below that the financialization of the firm in the 1980s was a product of the spread of the conglomerates’ practices rather than a *response* by shareholders to the failures of Corporate America.

#### **4. Financialized Management and the Shareholder Revolution**

As we have pointed out, many of the innovations which became associated with the 1980s were pioneered in the 1960s. From a historical standpoint, this is not particularly controversial. As we have pointed out, Fligstein (1990), (among others (Espeland and Hirsch 1990, Krier 2004)), has already insisted on a similar point. However, this literature has struggled to reconcile the history of the conglomerates in the 1960s with that of the shareholder revolution of the 1980s because it often misinterpreted this early history. Having conflated the conglomerates with the dominant M-form corporations, scholars read the early innovations of the 1960s simply as means to diversify when they reflected in reality a more profound shift in the object of strategy. This misreading made it difficult to connect this history to the shareholder revolution, and more often than not, scholars presented the 1980s as an abrupt reaction against the legacy of the 1960s. In the process, they lost track of the innovations of the conglomerates when conceptualizing the financialization of the firm.

In response to this blind spot we have gone back to the history of the conglomerates in order to make a conceptual point. The financialization of the firm was born out of the way in which the conglomerates developed new forms of empowerment by exploiting capital markets as a means to leverage speculative strategies and finance aggressive acquisitions. But what to make of the shareholder revolution then? Can we account for the profound transformation of corporate governance that it wrought while still acknowledging its roots in the transformations of the 1960s?

In this last section, we demonstrate first that each of the three features associated with the shareholder revolution (the focus of corporations on financial markets; the rise of shareholder activism; and the development of shareholder templates of management) should be interpreted as unintended outcomes of the rise of financialized management in

the 1960s. In doing so, we show that the shareholder revolution marked a further step in the financialisation of the firm, not only because it perfected the tools of financialized firms, but also because it politicized corporate governance and forced in the process the corporate establishment to grapple more directly with financialized strategies. For in an age of growing financial resources, it has become increasingly clear that financial markets can offer a decisive resource, in the form of readily accessible capital, to determine the outcome of various corporate contests.

#### ***4.1 The Turn of Corporation towards Financial Markets***

Perhaps the defining feature of the shareholder revolution is the fact that a wide range of corporate managers in the US became primarily preoccupied by their standings on financial markets. This is the point where we come closest to the literature on the shareholder revolution. This development has rightly been interpreted as the product of the threat posed by the market of corporate control in the 1980s with the rise of hostile takeovers. In particular, the literature has pointed to the emergence of corporate raiders who preyed on firms that performed poorly on financial markets.

While these facts are not controversial, it is interesting to highlight how this development is often reduced to its structural features. Corporate raiders have indeed been commonly cast as the guard dogs of shareholder interest pouncing on flagging corporations that failed to heed the demands of shareholders (see for example, Dobbin and Zorn 2015). This reading relies on a curiously narrow reading of the role of corporate raiders in this story. For these raiders are rarely treated as agents in their own rights, being mostly analyzed as the embodiment of market forces, or more specifically as the threat that obliged firms to meet the competitive demands of the market. From this perspective, firms that did not meet those standards would thus see shareholders go elsewhere, thus

depreciating the value of their shares and making these firms vulnerable to the attacks of corporate raiders.

Corporate raiders, however, were managers in their own right. Just like the conglomerates before them, they leveraged on financial markets as a means to capture other firms. While it is true that they legitimated their actions in the name of shareholders, their concerns were primarily managerial. At stake was a matter of gaining control over firms and capturing assets, not simply exerting voice or threatening exit to influence managers. As the conglomerates of the 1960s, they represented outsiders who used financial strategies to compensate for their corporate weakness in ways that destabilized the establishment. Both borrowed from a rhetoric about the merits of takeovers to shake stodgy management into action. In the process, both made great use of debt, depended on new forms of financing, and looked for ways to cash in on financial markets. More specifically, both relied on a business model that involved costly financing which could only be sustained if one treated an acquisition as a set of assets to be managed foremost with an eye to balancing future cash flows and cashing out down the line through further financial transactions.

These similarities are not coincidental since many of the corporate raiders of the 1980s had been part of the conglomerate movement in the 1960s (Saul Steinberg, Carl Lindner, Meshulem Ricklis, the Tisch brothers) or connected to it in one way or the other. The capacities they displayed in capturing and gutting firms had been honed over two decades and perfected with the development of various financial instruments (most notably junk bonds) (see Knafo and Dutta, 2016). They reflected a mode of empowerment and a transactional logic which was associated with financialized management (Krier 2005). It was a point that was recognized in the late 1980s with Espeland and Hirsch (1990) correctly pointing out that these raiders represented the culmination of the

techniques of financialized management pioneered by the conglomerates in the 1960s (See also Krier 2005: 44). However, this important conceptual link, we pointed out, got lost in the 1990s as scholars began to conceive the financialization of the firm as a shareholder revolution.

As we will show, the rise of corporate raiders was important because it forced the corporate establishment to take financialized management more seriously and re-articulate their corporate strategies in relation to financial markets. As a result, their standing on financial markets became a dominant preoccupation. But perhaps the biggest legacy of the raiders was the rise of the Leverage Buy-Out (LBO) firms, or what became known as private equity firms. These firms radicalized the strategies of financialized management initially developed by conglomerates. Interestingly, even Michael Jensen himself admitted that LBO firms resembled the conglomerates with their many divisions and business units and their aim to cash in on later financial transactions (Jensen, 1989: 15). However, he dismissed this similarity on the grounds that LBO managers are subject to various incentives which ensure that they perform well. In other words, unlike the conglomerates, they were ‘accountable to financial markets and shareholders’. This was a largely ideologically driven point. For the reality is that LBO firms bought out shareholders and took public corporations private. In that respect, they represented the opposite of what we often take to be the pro-shareholder climate of the 1980s. Far from cultivating a shareholder capitalism, they shielded their firms from shareholders to gain managerial leeway and freely capitalize on the corporations they captured.

The LBOs firms were important because they maximized the advantages of the financialized strategies developed by conglomerates, while cutting out its liabilities. Indeed, the great challenge for conglomerates was to reflect in share prices the value of their own accumulated assets. The more they accumulated assets, the bigger the gap often

was between these assets and their nominal value as reflected by the firm's share price. As a result, conglomerates risked becoming themselves targets for other raiders who would disassemble these multidivisional firms to cash in on the assets. One response for financialized managers was to go private with a takeover by buying all the shares so as to shield these financialized firms from both oversight and the risk of losing control. It has produced a new modality of financialized management that has since seemed unstoppable with private equity firms controlling by 2017 around \$2.8 trillion in assets (McKinsey 2018). The success of LBO firms represents a powerful piece of evidence of the staying power of the innovations made by the conglomerates.

#### ***4.2. Shareholder Activism and the Politicization of Corporate Governance***

This brings us to the second feature of the shareholder revolution that we identified in the introduction: the rise of shareholder activism. Scholars have seen the shareholder revolution as a product of shareholders being frustrated by low returns in the wake of the crisis of the 1970s. Their mobilization would have then provided the impetus behind the financialization of the firm. Yet one problem with this thesis is that shareholder activism emerged quite late in the process. It is usually dated back to the mid-1980s when financialization was well under way. It is no surprise then if most discussions about activism focus on how financialization was enforced, rather than created. By contrast, we argue that the reason for this lag is simply that the historical chain of causation runs counter to what is usually presented: it was financialized managers who shaped shareholder interests to their own purpose, rather than the other way around as it is too often assumed in the literature (see for example Lazonick and O'sullivan 2000).

It is a curiously neglected fact that the conglomerates, usually presented as the main target of shareholder ire, initially appeared on the scene as champions of shareholder interests. Indeed, they put much effort into appearing attractive to shareholders long



before the shareholder revolution of the 1980s. It should come as no surprise that the financialized conglomerates developed well-rehearsed discourses targeting shareholders. Being reliant on financial markets meant that they depended on investors for mobilizing the capital they needed to capture companies. As Brooks points out, in referring to the conglomerates of the 1960s, ‘never before had a company’s reported earnings per share meant so much in terms of its stock-market price’ (Brooks, 1973: 156). To support their position in financial markets, they needed to publicize their rationale and the benefit of their strategies. Litton industry, for example, was famous for building a narrative about acquisitions in new technology sectors that played well on Wall Street and fueled the rising value of its shares (Sobel, 1984: 74).

This highlights one of the key features of the financialization of the firm launched by the conglomerates: its vital role in politicizing corporate governance. Having to raise financial resources and force takeovers meant growing publicity and sustained efforts by conglomerates to mobilize shareholders behind their managerial projects or visions. Their strategies often involved managerial contests in which they had to appeal directly to the shareholders of another corporation in order to force the hand of its managers. Proxy fights, for example, meant convincing shareholders that new managers would be better equipped to serve them rather than the incumbent managerial team. Already back in the 1950s and 1960s, it became a common narrative for predatory managers to criticize managers from firms they targeted for their inefficiency in an attempt to sway shareholders. This strategy was also used to put pressure on managers to agree to a merger. By the 1970s, takeover bids would regularly appeal to the management of a targeted firm to uphold its duty to shareholders and accept a cash tender with high premiums on shares (Madrick 1987). Managerial contests were thus often waged ‘in the name of shareholders’. They were increasingly mediated through courts, as the takeovers

became more and more hostile, with both sides appealing to shareholder interests to further their cause.

One may assume that this essentially served the interests of shareholders, but we should be careful not to essentialize these interests. For managers played a big role in helping to formulate the options opened to shareholders. And indeed, financialized management teams often showed more inclination in mobilizing shareholders for their own ends than in genuinely committing to serve these shareholders. The well-documented manipulations of the conglomerates in the 1960s was a harbinger for the vast leveraging of the 1980s. In both cases, managers proved willing to take on highly risky strategies often at the costs of their own shareholders. And, indeed, studies show that shareholders from targeted firms generally did much better than shareholders from acquiring firms led by financialized managerial team that supposedly championed shareholder rights to legitimate their acquisitions (Mueller, 1977; Stearns and Allan, 1996: 700).

It is true that an important consequence of this trend was that shareholders *did* find more room to exert influence over management, and that this created the space for the growing shareholder activism that became associated with financialization in the late 1980s and 1990s. Yet shareholders largely defined their priorities in response to financialized management. Their interests were shaped by a process of financialization already under way and which did not emanate directly from shareholders' supposedly inherent preferences. It is striking, for example, that shareholder involvement in corporate governance was initially motivated by a desire to ensure that the gains made by corporate raiders would be spread among all shareholders. This concern was at the heart of many of the early minority shareholder rights won in courts from the late 1970s onwards. Shareholders were initially shunned by corporate raiders in their various financial dealing.

In particular, there was great resentment directed at greenmailing, the practice of corporate raiders that consisted in buying shares and threatening to launch a takeover in order to force a targeted firm to buy back the raiders' shares at a much higher price. For example, the California Public Employees' Retirement System (hereafter 'Calpers'), long seen as the organization leading the wave of shareholder activism, started to mobilize in response to a case of greenmailing in 1984. As the biggest shareholder of Texaco, it grew frustrated at the sight of the firm buying back two million of its own shares from the Bass brothers for a sum of \$1.3 billion. By contrast, Calpers could only sell their shares at 2/3<sup>rd</sup> of the price received by the Bass Brothers (Barnard, 1991: 1144). In response, Calpers decided to mobilize for equal rights to shareholders in order to make sure that the gains made by financialized managers would be spread to all shareholders.

This alignment of shareholders with financialized managerial practices can also be seen in the fact that shareholders mainly campaigned in the 1980s to facilitate financialized management by attacking the various defensive measures developed by corporations against hostile takeovers. Their main concern was not performance per se. Instead they resented corporate measures such as the use of poison pills, classified boards that staggered the directorships of the board and supermajority antitakeover amendments which required a 2/3<sup>rd</sup> majority for approving a takeover (Gillan & Starks, 2007: 15). These were all measures that hindered the strategies of financialized managers. It reflects again how the interests of shareholders were shaped by the practices of financialized management rather than frustrations with low returns.

That shareholders have gained handsomely in the era of shareholder value and joined in on the spoils of financialized management is without question. Yet the evidence is much weaker, if not contrary, when it comes to the impact of shareholder agency and their ability to *drive* change. An extensive literature on shareholder activism shows a

relatively limited, even if not insignificant, ability for shareholders to control managers (Gillan and Starks 2007). For example, the push to promote a new agenda around corporate performance in the early 1990s proved to be relatively disappointing (Froud et al, 2006). Not only did the motions voted by shareholders often turned out to be overly general and easy to circumvent for managers, it also proved difficult to mobilize diverse groups of shareholders to counter managerial power. As a result, many of the most powerful shareholders quickly reverted back to more informal and indirect methods which involved informal negotiations rather than outright pressure. This relative weakness was demonstrated by various studies that found little correlations between shareholder involvement and corporate performance or outcomes to investors (O’Sullivan, 2000; Gillan and Starks, 2007).

The historical evidence about the shareholder revolution thus suggests that shareholder activism should be read as a response to the financialization of the firm rather than its initial driver. As we argued, the lineage of financialized management offers a better historicized account for why shareholders became more prominent by contrast to structural accounts that simply reads it as a product of shareholder discontent resulting from falling profit rates. It also gives us a better sense of how shareholder interests were shaped in response to the challenges and opportunities offered by financialized management instead of naturalizing these interests.

#### ***4.3. Managerial Practices and the Norms of Shareholder Value***

This leads us to the last of the three transformations which came to be associated with the shareholder revolution: the new managerial templates and metrics associated with shareholder value. This often constitutes the pivotal point in accounts of the financialization of the firm. For if the previous two elements addressed above (the growing focus on financial markets with corporate raiders and shareholder activism), are

meant to tell us about the interest and market pressures that shaped corporate activity, it is usually norms around shareholder value that account for the actual practices of financialized management. More specifically, scholars often mention the role of agency theory, which is seen here as the neoliberal approach to corporate governance that promoted pro-shareholders norms of corporate governance (Davis 2009).

By contrast, we show here that agency theory was never the ‘exogenous force’ that it was later made out to be, an account which lends too much influence to an academic discourse that largely lagged behind changes in corporate governance. Instead, we argue that the more important discursive and cultural changes did not stem from the rise of agency theory, but from management consultants who translated the financial orientation of the conglomerates into templates for the corporate establishment with new shareholder metrics.

Agency theory was born out of an academic project to legitimize the use of economics for studying corporate governance (Butler & Ribstein 1989). Previously, Berle and Means (1967) had made an influential case for thinking about corporate governance in political and institutional terms. Writing in 1932, they argued that corporate managers had gained great autonomy from market oversight (and more generally public accountability) because shareholding was being dispersed across a much wider range of owners. This made it difficult for shareholders to mobilize and control managers and posed complex issues of accountability since managers seemed to be increasingly shielded from market pressures. For this reason, Berle and Means rearticulated the question of managerial accountability in *political* terms, essentially advocating for legal

and political expedients to be used in order to counter the economic power of managers (Aglietta and Rébérioux, 2005).<sup>3</sup>

In response to this view, agency theorists aimed to recast the question of corporate governance as an *economic* issue (Fourcade and Khurana, 2017). For this, they needed to show that managers were still subject to market-based mechanisms of accountability (Ribstein, 2008). This would then justify using market mechanisms, or an ‘economic’ approach, as an explanatory tool in opposition to the institutional concerns of a more political approach to the corporation. To make this point, agency theorists borrowed from financial theory the idea that capital markets should be treated as barometers for managerial performance. Share prices were taken here as reflecting the quality of management. Poor management, for example, would depress shares of a firm and invite takeovers by more successful firms. Recognition of this market for corporate control was important since the threat of takeovers could be interpreted in this framework as a proof that managers were still subject to a market logic, contrary to Berle and Means’ claim. The same could be said, agency theorists argued, about corporate structures. A market for corporate control could also be taken here as proof that the delegation of power to managers would be done in economically efficient since the effectiveness of the contracts structuring corporate governance would also be reflected in share prices.

While agency theory put forward a clear academic project, it was not a clearly defined political project that can be held to have carried the shareholder revolution. For one, the historical record shows little sign before the late 1980s of agency theory having much influence on corporate governance. As Heilbron & al point out (2014: 9), there are

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<sup>3</sup> This gave birth to a managerial theory of corporate governance that emphasises corporate growth and managerial autonomy. While this literature pointed to how stock prices is a concern for managers who fear takeovers, but it was somewhat downplayed as secondary to the drive for corporate growth (Marris 1998). Singh further argued that size was more important in limiting takeovers rather than the maximisation of profits (1971).

few mentions of agency theory in either corporate documents or the business press before 1987.

More importantly, agency theory evolved in inconsistent ways historically. Agency theorists were often forced to make discursive contortions in order to recast a sequence of contrasting developments as all being the product of the same logic of market efficiency. The main proponents of this approach thus took on rapidly changing positions as the reality of corporate governance shifted dramatically during this period (Henwood, 1996). Most strikingly, Jensen and Meckling (1976: 357) initially described the American corporation with its distinctive separation of management from ownership as an efficient outcome of markets and an effective solution to the problem of agency. A decade later, however, Jensen was calling for the end of the corporation (Jensen, 1989) when the rise of corporate raiders seemed to point ‘market rationality’ in a different direction; arguing that this form of organization was not responsive enough to the market. The reactive stance of agency theorists suggests that it would be more appropriate once more to invert the usual chain of causation when thinking about the relationship between agency theory and the financialization of the firm. For in many ways, it was Jensen who jumped on the bandwagon of financialized management and adjusted his ideas accordingly, rather than the opposite.

It is noteworthy in this regard that one of the main building blocks for agency theory, and certainly its key rhetorical element, was fleshed out in the 1960s by Henry Manne *to actually justify the conglomerates*. The Chicago School law scholar wrote then in support of the wave of takeovers taking place. Manne had been impressed by Louis Wolfson, an early takeover entrepreneur who launched a series of hostile takeover justifying his actions on the grounds that stodgy management was hurting corporations and holding shareholders hostages (Sobel, 2000: 15). This was an argument that would

be often used by the financial conglomerates when involved in contentious, near-hostile, mergers. As we pointed out, conglomerates tried to legitimate their takeovers by emphasizing the managerial ineptitude of the firms they targeted and calling upon the interests of their shareholders to ascent to this acquisition. Manne saw in Louis Wolfson's notorious actions, much publicized because of the various lawsuits he faced, a potential solution to the problem of agency identified by Berle and Means. This led him to formalize this rhetoric and make the case that a liquid market in corporate control would encourage more efficient managing (Ribstein, 2008). By enabling dissatisfied shareholders to sell their shares in a company deemed to be badly managed, the price of these shares would fall, inviting a takeover by a more efficient corporation (Manne, 1965). In that way, Manne argued, just as Jensen later did, that the market for corporate control was the key to making managers accountable. But in the 1960s, this argument was used to defend the very conglomerates that Jensen would later decry in the 1980s!

In challenging the idea that agency theory defined the normative context for the financialization of the firm, we do not deny that norms did play a significant role in the shareholder revolution of the 1980s. But the fact that agency theory mostly lagged behind financialized management, borrowing many key themes from the conglomerates and the corporate raiders, suggests that we need to look elsewhere when it comes to considering the role of norms in the process of financialization. More important than the *academics* of the Chicago school, we argue, were the management consultancies that were directly connected to the corporate establishment. In fact, the ideas that shaped the era of shareholder value were partly formed by a fringe of this consultant world that developed ideas and templates linked to the idea of shareholder value long before the so-called shareholder revolution.



Particularly important here were, two of the main architects of shareholder value, Joel Stern and Alfred Rappaport who developed conceptual foundations for thinking about corporate strategy in financialised ways. Although they used the rhetorical motif of shareholder value, their main intentions were to address managerial concerns. Take EVA (Economic Value Added), the first and most famous metric used to articulate shareholder value. It was developed by Stern and Stewart, a management consultancy firm whose founders worked previously for a management consultancy arm of Chase Manhattan. The roots of EVA go back to the attempts of Joel Stern to develop a more effective template for managerial decisions making based on capital productivity. Stern had studied at the University of Chicago and essentially attempted to translate the emerging financial theory for managerial purpose, but he went on a different course than agency theorists. He was driven by the intuition that corporate finance should have a more fundamental say in the operations of the corporations. He thus believed that value creation was to be assessed in the light of various alternatives for investments and measured in terms of its impact on financial markets. As Stern later recalled, he was trying to develop a more solid basis for managerial decision-making than traditional accounting that was geared towards financial reporting (Stern 2003).

It is no coincidence if Joel Stern developed his ideas in the late 1960s, precisely at a time when the conglomerates were in full flight. It reflected a growing concern with changes in corporate finances and the new possibilities they opened to corporations. In this context, Joel Stern convinced management at Chase Manhattan to set up a management consultancy which would provide financial advice to corporations. But working for the corporate establishment, Stern then conceived of his approach in reaction to the practices of the conglomerates. In particular, he criticized the privileging of earnings, as a bottom line for management. His idea of the net cash flow, which anchored

EVA, was elaborated in the late 1960s to reconceptualize management around flows of capital in and out of a corporation. It spoke directly to the way in which firms position themselves on capital markets and conceive of what was valuable in terms which privileged financial markets as a base line for corporation management.

However, resistance to Stein's ideas in the 1960s and 1970s remained strong partly because his premise that financial markets should be integrated more systematically, as a parameter for management, had limited appeal to the managers of big corporations. It was often perceived at the time as a superfluous concern for established managers comfortable with the resources at their disposal. Marginalized in the bank, Stern had to leave ultimately Chase Manhattan because of what he felt was a lack of support; a move which was prompted by the decision of officials in the bank to put Stern in a back-office position (Stern, 2003: 4).

Things began to change with the growing importance of mergers and acquisitions in the late 1970s. In this context, the financial template of management associated with these authors took on a new importance. The emerging threat posed by corporate raiders to the establishment made it increasingly necessary for corporations to manage more actively their relationship to financial markets. *The new managerial templates thus became a privileged channel through which the lessons of financialized management were translated for the corporate establishment*; a process that would play a big role in the making of the great stock market bubble of the 1990s. It contributed to the further financialization of the firm as a process of managerial empowerment.

Joel Stern illustrates the distinct trajectory of these managerial consultants seeking to use the tools of financial theory learned from his days at the Chicago Business school

to support corporate managers in their forays onto financial markets.<sup>4</sup> While these consultants made references of shareholder value as a means to rethink the corporation from the perspective of financial markets, their analytical templates had little to do with a commitment to shareholders. This is why they were never willing to take the turn in the 1980s of siding with shareholders against managers as Jensen did. This should not surprise us. After all, management consultants have a strong interest in defending the objectivity and commitment of those they serve, the corporate managers. Few remark on this tension between the champions of shareholder value and the main proponents of agency theory, yet this casts the turn to shareholder value in a different light. For if agency theory, ‘sided’ with the pioneers of financialized management (initially Henry Manne with the conglomerates in the 1960s and later Michael Jensen with the corporate raiders in the 1980s) the management consultants helped organize the counter attack by the establishment. For this reason, shareholder value should not be read as an extension of agency theory even if they share a common theoretical lineage. Joel Stern (in Stern and Willet, 2014), in fact, criticized Jensen for believing that managers would or could exploit the corporation for their own ends. As he argued, there were too many checks within the firm for this to be possible. Similarly, another influential consultant, Alfred Rappaport, (1989) responded to Jensen’s famous article announcing the end of the public corporations, by insisting that the problem was not one of form (i.e. the public nature of the corporation), but of the tools they had at their disposal (chasing the wrong bottom line).

## **5. Conclusion**

This article proposed a different conception of the financialization of the firm through a

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<sup>4</sup> The same point could be made about Alfred Rappaport (See Knafo and Dutta, 2016: 784)

re-examination of the shareholder value revolution of the 1980s and early 1990s. We showed how scholars have too often focused on the normative commitments invoked by champions of shareholder value to justify their actions, instead of the new managerial strategies and capacities that corporate managers built to pursue them. As a result, these scholars often end up surprisingly close to what is now the mainstream interpretation associated with agency theory. By presenting the shareholder revolution as an attempt to impose capital market discipline on corporate managers and satisfy the interests of shareholders, they essentially reproduce a reading of the so-called shareholder revolution that is similar to that of the leading agency theorist, Michael Jensen. While the literature on financialization may be critical of this outcome, too little is done to challenge Jensen's idea that the shareholder revolution was an attempt by the owners of capital – the shareholders – to wrestle back control of companies from 'unaccountable' managers. As a result, scholars of the financialisation of the firm end up normalizing these changes as the outcome of market competition, they reify shareholder interests as a straightforward matter and they considerably exaggerate the ability of the market to generate new norms of management.

By contrast, we have demonstrated how the conglomerates pioneered techniques of financialized managerialism that later became the bedrock of the shareholder revolution. By developing strategies and techniques to leverage their corporation on financial markets, they found dramatic tools of empowerment that profoundly rocked the corporate establishment. This led us to propose a political account of the financialization of the firm which emphasizes the conflict between two groups of corporations, rather than the broad structural conditioning that would have shaped corporate management in general.

Taking stock of this historical lineage demonstrates that we need to invert the causal links usually invoked to explain the shareholder revolution. For it was the politics unleashed by the rise of financialized management that produced the constellation of factors that are now associated with the financialization of the firm. Indeed, the growing emphasis on how firms perform on financial markets, the growing involvement of shareholders in corporate governance and the evolution of norms and managerial templates associated with this ‘shareholder revolution’, were all products of the ways in which various agents responded to the unsettling rise of financialized management.

This argument is of great significance for both analytical and political reasons. Analytically, it suggests that more work needs to be done on the way in which financial practices were mobilized for the ends of corporate strategy, and on the innovations that helped reshape the very nature of corporate strategy. Reformulating the history of the financialization of the firm as a process of corporate empowerment helps to better grasp the evolution of corporate strategy. It also opens the door for a richer historicizing of financialization by delineating different phases in the political conflicts unleashed by these new forms of power, of which the rise of the conglomerates and the shareholder revolution represent only two. Finally it poses important questions about the ways in which these new tools and strategies of corporate empowerment were translated to different environments around the world, to fit others forms of corporate governance with their own distinct strategies of growth and empowerment.

Politically, the concern over the financialization of the firm stems from the inequitable consequences it has for other stakeholders, especially workers, and its impact on so-called ‘patient’ strategies of investments (Deeg and Hardie, 2016). Unfortunately, the idea that shareholders have stonewalled ‘social’ initiatives meant to make corporations more responsible to diverse stakeholders has played into the hands of

corporate management. Indeed, managers too often placate critique by invoking the constraints imposed by shareholders. In the process, decision makers are systematically made unaccountable for the strategies they pursue. To recognize that corporate managers have a greater responsibility in this process can thus help refocus the target of political movements and policy initiatives. Without dismissing the importance of shareholder pressures, this paper suggests that the more significant challenge is to confront financialized managerialism itself and the way in which financial markets have empowered corporate management.

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