The Emerging Discourse of Shareholder Value Management

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The earliest calls for a reorientation of German corporate strategy began to be heard at the beginning of the 1990s. The most vocal critique of the existing productionist, company-centered management style came from the business press. In 1991, the German business publication *Manager Magazin* published a study of the 180 largest publicly traded German companies, examining their *Cash-flow Return on Investment* (CFROI), one of the main measures of shareholder value. The study suggested that some 60 percent of these companies had a CFROI below the cost of equity capital, suggesting that these companies were "value destroyers" rather than "value creators" (*Manager Magazin*, 5/1/1991). A year later, the magazine published another study, this time ranking the 100 largest corporations and 35 financial institutions according to their performance in terms of shareholder value, suggesting that a shareholder value approach allowed to evaluate whether companies "had acted efficiently … or whether they had squandered the capital entrusted to them" (5/1/1992). Overall, the attention paid to shareholder value in business publications increased significantly during the early 1990s, as shown in Figure 1 and 2.

Insert Figures 1 and 2 about here

While the topic was practically absent from managerial discourse before 1990, the number of articles discussing the virtues of shareholder value management now began to rise, and about 1996 the discussion rapidly increased in intensity.

Induced by the critical reporting of the business press, a small number of corporations now began to publicly proclaim their switch toward a shareholder-oriented management style. Already in 1990, a group of analysts and company finance officers at high profile corporations—among them Bertelsmann, Haniel, Bosch, Henkel, and Siemens—had formed an informal round-table to discuss ways of applying shareholder value concepts to their firms. Now these firms and others began to openly market their ideas to shareholders and potential investors. Jürgen Schrempp, successor of Edzard Reuter as the CEO of Daimler-Benz, declared in his inaugurational speech that his goal would be to create "profit, profit, profit!"(*Der Spiegel*, 3/17/1997). Ulrich Hartmann, CEO of Veba, presented financial analysts with T-shirts bearing the Veba-logo and the statement "We do it for value." Edged on by a sluggish German economy and a public discussion over the problems of the governance system, the corporate movement towards shareholder value began to gather momentum. The rhetoric of shareholder value was widely adopted, prompting the business press to sarcastically observe in 1996 that "every self-respecting management team now proclaims itself to be maximizing shareholder value" (*Manager Magazin*, 12/1/1996—my own translation).

The rise of a shareholder value rhetoric was also reflected in the language of corporate annual reports. During this initial phase, the majority of annual reports discussed shareholder value management in terms of what I have earlier labeled "acquiescence", where the organization complies with external demands for SV management. For example, in 1995, the AGIV annual report proclaimed that

> The overriding goal … is to unleash the full value and profit potential of all the AGIV companies in accordance with consistent shareholder value management (AGIV 1995)

The Metallgesellschaft report for the same year gives shareholder value management an equally central position:

> …boosting shareholder value is at the centre of the Metallgesellschaft Group's strategies and decisions (Metallgesellschaft 1995)

Similarly, Daimler Benz and Thyssen:

> The primary aim of the Board of Management is to offer you, the shareholders in the Daimler-Benz AG, attractive prospects for return on investment. (Daimler Benz 1995)
>
> Raising shareholder value will remain our overriding goal." (Thyssen 1997)

By 1996, almost all of the largest corporations had devoted one or more pages of their annual reports to the topic of shareholder value. At the same time, companies began to pursue a more active investor relations policy. Whereas earlier companies had paid little attention to investors, they now organized "road shows" during which their CEOs met with groups of analysts to brief them on corporate activities regarding shareholder value. Managing relations with the shareholders had assumed a much more central concern, and executives were quite conscious of the symbolic significance of this process, prompting Daimler CEO Schrempp to suggests that, in order to be successful with investors, "you have to make the right music" for the Wall Street Journal (*Der Spiegel*, 5/20/1996). There is at least anecdotal evidence that the financial markets began to respond to the newly found corporate faith in shareholder value. For example, the German business wire *Vereinigte Deutsche Wirtschaftsdienste* reported that, as the financial market hit record highs in mid-1997, "the most popular stocks were those of companies that had recently issued statements regarding shareholder value"(VWD, 7/2/1997). Similarly, an article in *Manager Magazin*, which claimed that Thyssen was considering a more shareholder value oriented strategy, sufficed to push up share prices of Thyssen, a heavy-industry conglomerate (VWD, 11/19/1996). It appears that the financial markets had begun to respond to the shareholder value rhetoric of the corporations.

Public Resistance and Corporate Adjustment

The open advocacy of shareholder value management displayed by corporations did not remain unchallenged, but instead triggered a heated debate about the future of the German corporate governance system. The new management style, with its decoupling of the corporations from local concerns and focus on international investors, met with fierce critique from unions, political parties, and the German press at large. Oscar Lafontaine, then chairman of the Social Democratic Party (SPD), publicly denounced the new concern for shareholder value as an intellectual disorientation ("geistige Fehlorientierung") and insisted that the primary goal of the corporation ought not be increased share prices but the "social responsibility to the employees … and to society at large" (*Handelsblatt*, 4/12/1997). In a speech to the German employer's association, German President Roman Herzog similarly entreated companies to not only think in terms of "shareholder value", but also to consider how their sites in Germany could be sustained. He acknowledged that in the age of globalization, moving production abroad is often inevitable. But in the long run, he argued, it would be in the interest of every entrepreneur with a long-term vision to take into account the social responsibility of corporations in Germany (VWD, 12/12/96). Some economists likewise cautioned against a fixation on the shareholder, reminding managers that successful entrepreneurs would have to balance shareholder and other stakeholder interests, arguing that corporations were also "social beings" ("soziale Wesen") (VWD, 11/8/96). The German unions went even further in their criticism, with the IG Metall, the largest German union, condemning Daimler-CEO Schrempp as a corporate "Rambo" (*Spiegel*, 17/3/1997).

By 1997, the term "shareholder value" had in fact become synonymous with a new "social coldness" and a break with the traditional model of employer responsibility towards all stakeholders in the company. While most large German companies had invoked the rhetoric of shareholder value management, if only to placate the growing number of financial analysts that issue purchasing recommendations, this resistance now led them to remove the word from their publications and speeches at annual meetings. The "short-term strategy of shareholder value maximizing" exhibited by many American companies "can be no model for Germany," according to Helmut Loehr, member of the board of directors of Bayer, a large German chemical firm (VWD, 11/7/96). Instead, he suggested, a German interpretation of shareholder value would have to take into account the local institutions. Another high-ranking manager suggested the same sentiment: "I don't think we will sacrifice our cultural values on the altar of the market—particularly not the altar of the stock market"(*Der Spiegel*, 2/24/97). Even Daimler-CEO Jürgen Schrempp, one of the most outspoken proponents of shareholder value management, claimed that the current discussion over shareholder value in Germany was an ideologically tinged "ghost discussion" ("Gespensterdiskussion"). In a press release, Schrempp stated that shareholder value management represented not the triumph of one social group over the other, but a strategy based on basic economic insight. Globalization was pushing companies to regroup, he claimed, but that did not mean he would endorse "putting on American makeup" ("auf amerikanisch zu schminken") in order to please Anglo-Saxon investors. On the contrary, German strengths, such as long-term strategy and the consensus-model of decision making, needed to be maintained (VWD, 11/14/96).

This changed rhetoric was also reflected in annual reports. Faced with a situation of constituent multiplicity (Oliver 1991), a number firms now resorted to both *compromise* and *reframing* strategy. To recall, compromise involved balancing the interests of different constituents against each other. For example, while in 1995, Daimler Benz had defined shareholder value as the "primary aim" of the management, the 1996 report balanced the interests of the shareholders against those of other stakeholders:

> Understanding Value-Based Management: The permanent and continuous expansion of our company's value is only possible when the interests of all groups that contribute to our success are given the appropriate degree of consideration. Our economic performance and satisfactory returns for our shareholders depend on motivated employees, satisfied customers, and reliable and innovative suppliers. (Daimler Benz 1996)

Examples of a compromise strategy are also given by Lufthansa and VIAG:

> The management of Lufthansa sees it as an imperative strategic task to achieve a harmonious balance between the respective interests of customers, employees, and shareholders. Only in this way can the company's value be augmented on a lasting basis. (Lufthansa 1997)

> The primary entrepreneurial goal of VIAG is to ensure the long-term growth of the company's value while at the same time safeguarding the interest of employees and costumers. (VIAG 1997)

The same is true for the Bayer annual report, which states that the companies managerial incentive plan involving stock options in fact "shows Bayer's success in achieving a balance between stockholder value, value management and employees' interests" (Bayer 1997).

While such a balancing rhetoric acknowledges the conflict between different stakeholder groups, *reframing* denies this very interest by redefining the situation. Two examples of this strategy are given below, both of which explicitly address the issue of conflicting interests among stakeholder groups:

> Shareholder value at the expense of corporate responsibility? There should … be no conflict between shareholder value and corporate responsibility as one complements the other. Those who are unable to see beyond their own financial statements do not just lose sight of macropolitical and macroeconomic data, they also underestimate the importance of "soft factors". Exposure to art, culture, and science, for example, plays a crucial role in a company's creativity and hence its innovative ability. … By subsidizing education and science, art and culture, we are making a contribution to the economy and to the common good. It is the least we can do for our community. (Altana 1999)

> The slogan 'shareholder value', which has recently fallen somewhat into disrepute in public, continues to possess—if understood correctly—central significance for the alignment of the company. This does not just relate to the short-term performance of the shares at the expense of others. On the contrary, it means that all interest groups are to participate in the beneficial development of the group—by means of good products, secure jobs, and, last but not least, an attractive return. (Wuerttembergische Versicherung 1996)

These definitions present a considerable reframing of the original concept of shareholder value as understood by financial economists. Figure 2 provides an overview of the emergence and distribution of shareholder value rhetoric in corporate annual reports. During the initial phase, the vast majority of annual reports employed a *acquiescence* strategy when discussing shareholder value. However, after 1996, a considerable percentage of reports shifts to the use of a *compromise* strategy, involving either a balancing or reframing of constituent interests.

Insert Figure 3 about here

A final observation relates to the term "shareholder value" itself in corporate rhetoric. Given the fact that shareholder value had increasingly become a negatively charged symbol, German corporations began to use other, less contested terms. Instead of shareholder value, they preferred to talk about "increasing the company value" ("Steigerung des Unternehmenswertes"), thus avoiding the English phase in favor of a German phrase that potentially includes all stakeholders, not just the shareholders. The German Financial Times, in pointing out the symbolic nature of the move, ironically commented on this sudden shift as "Bye-bye Shareholder-value. Hello, Unternehmenswertsteigerung" (quoted in *Der Spiegel*, 3/17/97).