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The Legacy of Shareholder Value Capitalism

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Abstract

American society has now been living in the wake of shareholder value capitalism for four decades. The shareholder value movement began as an invasion of the market for corporate control by financially oriented investors who critiqued sitting managers as not paying sufficient attention to the interests of shareholders during the economic crisis of the 1970s. It altered the relationship between financial markets and the managers of publicly held corporations. Subsequently, publicly held corporations have worked to raise share prices any way they can. While managers initially resisted shareholder value initiatives, they came to embrace them when their pay became tied to the share price. This created an incentive to discover new forms of financial extraction whenever a given set of strategies stopped producing new gains. We consider the impact that these reorganizations had on inequality and the relationship between shareholder value capitalism and financialization. We end by discussing the continuing relevance of shareholder value for understanding contemporary American capitalism. We also identify several avenues for future research on the evolution and consequences of shareholder value in the twenty-first century.

INTRODUCTION

The most significant change in American capitalism in the past 40 years has been the emergence and institutionalization of the shareholder value conception of the large corporation. This perspective conceives of the corporation as an entity that should be managed to maximize shareholder value, defined as undertaking actions to increase the stock price for shareholders (Shin 2013). The main characteristics of what happened are generally agreed upon: The power over large corporations shifted partly from management to shareholders, diversified conglomerates gave way to more focused firms, and finance and financial markets became more central in the functioning of American businesses (Useem 1993, Davis et al. 1994, Zorn et al. 2005, Davis 2009, Shin 2013). Companies came to be judged on the basis of their quarterly increases in shareholder value and less on other business objectives, such as the production of new and novel products and growth in sales and market share. Managers who embrace shareholder value maximization are not supposed to consider the interests of other stakeholders like workers and communities in their quest to raise the share price.

Shareholder value can be conceived of as a description of the power relationship between the owners of a firm's shares and management, an ideology, a set of business strategies, and an orienting theoretical frame with which to make sense of the actions of managers and the owners of stock. As a description of who is in charge, it indexes the structural power of share owners and financial market intermediaries over management (Davis 2009). As an ideology, it operates to justify the actions of managers of corporations. Managers present themselves as representatives of shareholders and justify their actions in service to those interests (Lazonick & O'Sullivan 2000, Heilbron et al. 2014). As an institutionalized set of business strategies, it defines what kinds of actions managers will undertake to increase short-term profitability and increase the share price, particularly by using forms of financial engineering to produce positive short-term results (Fligstein & Shin 2007, Jung & Dobbin 2015). These will change over time and will spread across the population of corporations as they prove to be successful. As an orienting frame, it suggests what kinds of actions will make sense to managers and investors. It uses language that focuses on financial analysis and the data and statistics related to that form of analysis, like returns on assets and Tobin's Q, to show investors how the actions being taken increase the market capitalization of the firm (Lazonick 2013).

The purpose of our review is to consider what we know about the origins of shareholder value capitalism, its transformative spread across large publicly held corporations, its evolution through various iterations, and its impact on income and wealth inequality in the United States.

There are two issues that have been less documented but are key themes in our review. The first is contestation, which has been a significant aspect of shareholder value capitalism throughout. The shareholder value revolution began primarily as a social movement pitting outside investors against incumbent management teams (Useem 1993), but it was also propelled by contestation among different groups of investors (Heilbron et al. 2014). The adversarial dynamic between financial markets and managers was eventually resolved as managers came to adopt the shareholder value orientation, largely as a result of equity-based executive compensation. The subsequent struggle between managers and workers over who would bear the costs of investor extraction was clearly won by managers (Goldstein 2012), though not without creative efforts by labor groups to turn the tools of shareholder value to labor's benefit (Webber 2018, Jacoby 2021, Liu & Goldstein 2021). Since the turn of the twenty-first century, shareholder value has faced several normative challenges from factions of business elites, long-term asset managers, and social movements (Stout 2012, Carberry & Zajac 2021).

The second issue is the dynamic evolution of shareholder value capitalism. To continually maximize investor returns, chief executive officers (CEOs) had to continuously innovate new forms of financial extraction to heighten earnings metrics, decrease costs, and signal to financial

markets that they were serious about raising the share price. The problem is that once a set of tactics is deployed, then the gains have been captured. So, for example, reducing pension benefits for workers can dramatically increase short-term profit. But once those benefits are reduced, their impact on the bottom line comes to be factored into the share price. This has put constant pressure on CEOs to find new ways to extract profit. While scholars have documented the connection between investor pressures and the most significant labor-degrading managerial innovations in recent decades, they have not fully appreciated the extent to which implementation of these tactics has transformed the course of shareholder value capitalism by setting off a continual search for new sources of extraction. By the 2010s, the leading edge of shareholder value innovation had arguably moved beyond the domain of publicly traded firms altogether due to the exhaustion of extractive opportunities and significantly diminished number of public firms (Davis 2016). Even as shareholder value capitalism has persisted across four decades, it looks quite different now than during the 1980s.

After reviewing the scholarship on the origin and spread of shareholder value tactics, we consider how the focus of management on raising share prices has impacted income inequality. The literature shows that the tactics of shareholder value capitalism have disproportionately raised the income and wealth of the top 1% of earners and is one of the main causes of changing inequality (Tomaskovic-Devey & Lin 2011, Volscho & Kelly 2012). The literature also shows how a large part of the population found themselves with lower wages and reduced health and pension benefits (Fligstein & Shin 2004, Cobb 2015). This began with blue-collar workers during the 1980s and spread to white-collar workers in the 1990s (Osterman 1999). These processes were the direct result of management's implementing strategies to lower their obligations to their workforces and redistribute the gains to shareholders (Shin 2014).

We also take up the relationship between shareholder value capitalism and financialization. In the past 15 years, scholars have focused on the idea that financialization, the use of financial criteria to evaluate decision making across a wide variety of social settings has increased (Epstein 2005, Krippner 2005). Some scholars have viewed financialization as more encompassing than shareholder value and driven by different forces (Epstein 2005, Hein 2012). Others view shareholder value as the driving force behind financialization (van der Swan 2014). We consider the linkages between these ideas and explore the degree of convergence and divergence in these research agendas.

We conclude by considering the ongoing relevance of shareholder value in the context of some of the changes in American capitalism. In particular, we consider the rise of private equity, the financialization of the American economy writ large, and the emergence of the technology sector where the ideology of shareholder value has produced a new wrinkle on innovation. We conclude that the changes that have occurred reflect the continuing dominance of the idea that shareholders' interests should predominate. But we also demonstrate that shareholder value is a flexible concept into which many different ideas can be attached.

THE ORIGINS AND DEVELOPMENT OF SHAREHOLDER VALUE CAPITALISM

The term "market for corporate control" refers to the stock market where actors with sufficient capital can buy enough shares of publicly held corporations to take control of them. Historically, management teams leading publicly held corporations were the main actors in this market as they were either the predators who bought up other companies through mergers or acquisitions, or the prey who found themselves the target of other corporations (Fligstein 1990, Useem 1993, Davis 2009). The term was coined by Henry Manne (1965), a financial economist, in response to the

merger wave of the 1960s. Manne saw the basic logic of the market as being about management teams observing targets from firms with low stock prices that were poorly run and deciding to take them over to extract the value inherent in the firm. He argued that

> the lower the stock price, relative to what it could be with more efficient management, the more attractive the take-over becomes to those who believe that they can manage the company more efficiently. And the potential return from the successful takeover and revitalization of a poorly run company can be enormous. (Manne 1965, p. 112)

In the 1960s, this market was dominated by the management teams of large corporations. Institutional investors and the financial markets themselves were not in control of who bought whom. Management teams were. These management teams were led by what Fligstein (1990) has called the "finance conception of the firm." At this time, the firm was first conceived of as a bundle of assets that managers would deploy and redeploy by the buying and selling of firms in order to maximize profits. During the 1960s, diversified portfolios of product lines would be manipulated to maximize profits. The idea had three parts. First, firms could smooth out business cycles by investing in businesses that performed differently as the economy expanded and contracted. Second, financial oriented managers would have closer control over assets and, thus, be able to use them to make more money either than they would as passive investors in stock portfolios, or than they might make by investing in them as free-standing firms. Finally, financially oriented executives would be able to make investments in firms and evaluate the likelihood that their investments would succeed based solely on financial criteria.

The 1960s witnessed a large-scale merger movement, whereby many of the largest corporations substantially increased their size and diversification (Davis et al. 1994). It has been estimated that between 1967–1969, 40% of the 500 largest firms were absorbed in mergers or acquisition (Fligstein 1990). Many of the financial forms of reorganization, including hostile takeovers, divestitures, leveraged buyouts, the accumulation of debt, and stock repurchasing, were invented or perfected in this period. As a result of this success, financial executives increasingly became CEOs of large corporations. By 1969, the finance conception of control had come to dominate the market for corporate control and, by implication, the strategies and structures of the largest American firms. The financial conception of control, which dominated the market for corporate control during the 1960s, therefore already viewed the firm in primarily financial terms (Heilbron et al. 2014).

Shareholder value capitalism is the ideology that represents the triumph of financial institutions and financial markets over the managers of publicly held corporations during the 1980s in dominating the market for corporate control (Lazonick & O'Sullivan 2000). The shareholder value perspective critiqued the finance conception of the firm that focused on viewing the firm as an investment portfolio as failing to maximize shareholder value by its failure to raise share prices. What caused this critique to evolve? The large American corporation in the early 1980s was under siege from three exogenous forces: high inflation, slow economic growth in the 1970s, and increased foreign competition. As foreign competition, particularly with Japanese and German firms, heated up, American firms lost market shares and, in some cases, entire markets, such as consumer electronics (Useem 1993, Fligstein 2001, Zorn et al. 2005). The slow economic growth and high inflation of the 1970s had a set of negative effects on large corporations. Slow economic growth meant that stock prices languished as investors fled the stock market. This was compounded by the high inflation of the era. The Federal Reserve raised interest rates, and investors could earn high rates of return by buying government bonds. This pushed investors out of the stock market toward fixed income securities like government bonds.

Inflation had several other impacts on the balance sheets of corporations. Firms avoided borrowing money because of high interest rates. This meant that firms kept large amounts of cash

on hand to fund their activities. Their real assets (i.e., land, buildings, and machines) were also increasing in value due to inflation. Because of the high inflation and poor economic conditions, profit margins were squeezed. Firms tended not to revalue assets on their books. If they did, then their financial performance would even look worse as standard measures of performance like return on assets would make poor profits stand out even more. With low stock prices, undervalued assets, and lots of cash, by the late 1970s, many large American firms had stock prices that valued them as being worth less than their assets and cash (Friedman 1985). This created a crisis of profitability during the 1970s for managers of large firms.

The conditions were right for some form of change in how large publicly held corporations were governed. There were three problems: What would the analysis of problems look like, who would spearhead it, and what role would government play in sparking the new conception of the firm? During the late 1970s in America, the discourse of deregulation was already taking shape in the political arena. The Carter administration embraced the view that one way out of the stagflation (high inflation, low economic growth) economic crisis was to deregulate product and labor markets. The Carter administration began to experiment by deregulating the airlines and trucking industries.

The presidential election of 1980 brought Ronald Reagan into power. Reagan embraced a pro-business, antigovernment agenda (Block 1996). The Reagan administration did several things that directly encouraged the merger movement of the 1980s (Davis & Stout 1992, Fligstein 2001). William Baxter, Reagan's attorney general in charge of antitrust, had been an active opponent of antitrust while an academician. In 1981, he announced new merger guidelines, which committed the government to approving almost all mergers except those that led to concentration ratios within particular markets of greater than 80%. This gave the green light to all forms of mergers, large and small, vertical and horizontal.

Institutional investors began to realize that some firms had market values that were potentially less than the value of their saleable assets.[1] They argued that incumbent management had created inefficient bureaucracies with too many disparate parts. This caused them to enter the market for corporate control, make hostile takeover bids, and dismantle or absorb existing firms (Davis et al. 1994). By breaking firms up, they could make money. Part of the problem for investment bankers and other institutional investors was raising the cash to engage in hostile takeovers. This led to the most important financial invention of the period, which was the high-yield or junk bonds to fund these purchases. These bonds could be used to buy up the shares of the firm, and then the new owners could engage in internal reorganization of the firm to pay the debt down. Between 1981 and 1986, there were over 2,900 mergers per year on average (Ravenscraft 1987). From this perspective, the 1980s market for corporate control was driven by the crisis in the already existing financial conception of the firm and the changes in the regulatory environment, which encouraged firms to use the market for corporate control to reorganize their assets (Davis & Stout 1992).

Unlike the prior merger wave during the 1960s, these reorganizations would involve divestitures and mass layoffs. The shareholder value rhetoric argued that those engaging in reorganizations should not worry about workers, consumers, or suppliers, but instead, their aim was to make more money for the owners of the assets.

The question of who came up with the shareholder value conception of the firm and how they related to those who were working with the older financial conception of control has been studied

[1]This animating principle of the 1980s merger wave—that firms were undervalued—fit uneasily with the efficient market hypothesis, which was the dominant theory of financial markets at the time (for a discussion, see Ravenscraft 1987).

extensively (Davis & Stout 1992, Useem 1993, Davis & Thompson 1994, Fligstein 2001, Heilbron et al. 2014, Knafo & Dutta 2020). There were a number of important actors involved, mostly in the financial community. These included investment banks, stock brokerages, and insurance companies, as well as financially oriented executives in mainstream firms. Davis & Stout (1992) described what happened as a social movement. These actors came to create the shareholder value framing of what corporations should be. This framing cemented an ideational shift represented by a shift in language from describing the dominant corporate strategy as retaining all product lines and reinvesting profits to downsizing labor forces and selling off product lines to make more profits that would then be distributed to shareholders (Zorn et al. 2005, Lazonick 2014).

The role of academic agency theorists in the emergence of shareholder value is a matter of some debate (Stout 2012; see Jensen & Meckling 1976, Fama & Jensen 1983 for an exegesis of agency theory). Heilbron et al. (2014) provide good evidence that agency theory was not a key cause of the shareholder value revolution and came later as a justification of what was already happening. Other work has similarly suggested that managers and boards each selectively adopted those interpretations or implications of agency theory, which they could deploy to further their own interests (Dobbin & Jung 2010). Although agency theory provided an intellectual foundation and justificatory discourse for shareholder value management and corporate governance practices, the adoption of these practices does not appear to represent an instance of performativity in any strong sense.

THE IMPACT OF SHAREHOLDER VALUE ON CORPORATIONS AND MARKETS

One of the big ironies is that the shareholder value conception of the firm, which was touted as a corporate governance solution to make US corporations more competitive and profitable (Jensen 1989), did not lead firms to higher profitability on average (Ravenscraft & Scherer 1987, Jensen & Ruback 1994, Fligstein & Shin 2007). Because many of the takeovers involved the use of debt, firms had a hard time showing higher levels of profit given their high levels of debt and their elevated equity prices. Of course, this did not necessarily pose a problem for shareholders, given that elevated share prices offered a more tax-efficient means of capturing surplus. Nor was this a concern for the other beneficiaries of the merger movement: the investment bankers who were paid large fees for making the deals.

The link between maximizing shareholder value and firm competitiveness is even more tenuous. The literature on competitiveness shows that the main factors that determine whether or not a firm is competitive have to do with its competencies at organizing production and creating new and useful technologies. A narrow focus on shareholders to the exclusion of other constituencies in the firm tends to result in reduced investment in the future of the firm (Davis 2018a). It should not be surprising that American corporations never regained ground in industries where they lost competitive advantage to Japanese and European firms (i.e., consumer electronics, automobiles, luxury goods, and high-end precision machines) by attempting to maximize shareholder value. Instead, the general tactic of American managers when they faced aggressive competition would be to divest themselves of assets and exit product lines where they could not dominate.

Since 2010, the most favored tactic for managers to boost investor returns is stock buybacks (Lazonick 2013, 2014). Although buybacks are a longstanding tactic for distributing wealth to shareholders (Westphal & Zajac 2001, Zorn et al. 2005), corporations began buying back their stock at record rates during the post-2008 financial market recovery. Public firm buybacks totaled over $800 billion annually in 2018–2019. By using cash to buy stock, corporations restrict the supply of stock and raise the stock price. For managers whose pay is directly tied to the stock

price, stock buybacks are a way to ensure that firms meet analysts' quarterly earnings expectations (Almeida et al. 2016). The total effect was to raise share prices, but to do little for the competitive position of the corporation. In 2017, the Trump administration orchestrated a massive tax cut for corporations. Fully three-quarters of that tax cut has been spent on stock buybacks. Many firms also used debt to fund stock repurchases. The resulting increases in leverage made firms especially vulnerable to the coronavirus disease 2019 (COVID-19) shock (Aramonte 2020).

The effect of shareholder value imperatives on market structure and the scope of firms has come full circle since the 1980s. The end of the 1980s divestiture wave came when most of the good deals to buy and break up companies had been done. Subsequent merger and acquisition activity had a very different effect. One of the most important things that began to happen in the late 1990s was an increase in industry concentration (Boushey 2019, Philippon 2019). After the Reagan administration stopped enforcing the antitrust laws, conventional wisdom was that any corporate merger that did not literally create a monopoly was of benefit to consumers. The idea was that firms would build out economies of scale and scope by buying their competitors. This occurred in numerous industries, including banking, telecommunications and media, and airlines. The resulting increases in market power translated directly into higher investor returns (Grullon et al. 2019). Shareholder value capitalism, which emerged during the 1980s as a project to carve up large firms (Davis et al. 1994), had by the mid-2010s resulted in the highest levels of industry concentration since before the 1970s (Grullon et al. 2019). One consequence of this concentration, which we discuss further below, is that the number of publicly traded corporations in the United States declined by 50% between 1996 and 2016.

THE IMPACT OF SHAREHOLDER VALUE ON MANAGEMENT

One part of the story that we have yet to tell is how managers came around to support shareholder value capitalism. During the 1980s merger movement, managers initially resisted the takeover of corporations by corporate raiders (Davis 1991, Useem 1993). Managers tried to convince boards of directors to create "poison pill" devices to deter unwanted hostile takeover bids (Davis 1991). Poison pills would authorize the issuance of a large block of stock that would have the impact of raising the cost of doing a hostile takeover.

By the early 1990s, however, the struggle between sitting management teams and institutional investors had largely resolved itself. Many older managers had been replaced by new executives whose training aligned with the doctrine of shareholder primacy. Managers agreed to implement organizational strategies that were perceived to be oriented toward raising the share price. In return, they retained control over the corporation and were given significant stock equity as an incentive to align their interests with those of shareholders (Goldstein 2012, Flaherty 2015). This compromise saw the average CEO pay climb from about 40 times that of the average worker in 1980 to over 300 times by 2001 (Bebchuk & Grinstein 2005).

One of the issues that is still a bit murky is the degree to which financial institutions and markets really took over the governance of large publicly held corporations. One can make the case that managers had little choice but to work to maximize shareholder value or else lose their jobs (Useem 1993), especially as the countervailing power of managerial networks dissipated (Benton & Cobb 2019). But research has shown that firm executives also became savvy about using stratagems such as earnings management and decoupling to appease financial audiences without fully implementing the shareholder value programs (Westphal & Zajac 1998, 2001).

Moreover, firm managers actually became richer under shareholder value initiatives (Shin 2014, Dencker & Fang 2016). These managers began to see their salaries climb and their pay packets swell as they were given stock and stock options to encourage them to undertake

reorganizations oriented toward raising the share price. The idea was that if managers were owners, they would be more likely to try and raise the share price. Some have argued that this means that the top managers, particularly CEOs, actually have won the battle between the financial markets and management by spouting shareholder value rhetoric with one hand and taking outsized pay for doing so with the other (Gordon 2000, Goldstein 2012). At the very least, managerial pay was one of the principal beneficiaries of shareholder value capitalism. As an incentive to undertake unpopular actions, like closing plants, slashing wages and benefits, and going offshore to produce goods, executives could capture a portion of the resulting surplus (Shin 2014). Viewed in class-analytic terms, this can be seen as a process whereby financial capital broke the postwar détente between managers and labor, coopting the former in order to weaken and displace the latter.

THE IMPACT OF SHAREHOLDER VALUE RESTRUCTURING ON WORKERS

There is a sizeable literature on the deleterious effects of the shareholder value conception on workers and organized labor. For managers tasked with increasing investor returns, reducing labor costs came to be seen as the most expedient path. In practice, this meant pursuing a relentless emphasis on cost-cutting through outsourcing, delayering, divestitures, layoffs, and employee benefit cuts (Fligstein & Shin 2007). Scholars have documented the devastating impact of these corporate reorganizations on labor forces. The manufacturing sector was hollowed out in a process of deindustrialization (Bluestone & Harrison 1984). Millions of blue-collar unionized workers lost high-paying jobs, and their incomes would never recover. Unionized labor forces were the focus of many efforts to transfer corporate cash flow from workers to shareholders (Fligstein & Shin 2007). Kochan & Dyer (2020) show that there has been a continued assault on the remaining set of unionized workers. By 2020, the percentage of unionized workers in the United States in the private sector has fallen to 6% of the labor force.

Historically, corporations that announced layoffs saw their stock prices plummet as it implied that the main markets for their products were in decline. But beginning in the late 1980s, stock markets came to construe layoff announcements as a signal of shareholder-friendly management whereby the number of workers would decline and their salaries would be added to corporate profits (Lazonick & O'Sullivan 2000, Jung & Dobbin 2015). By the 1990s, layoffs became decoupled from firm performance and were instead more closely associated with the strength of pressure on firms from financial markets (Jung 2015). Markets rewarded firms for announcing layoffs in both good and bad times (Farber & Hallock 1999).

During the 1980s, the blue-collar labor force took the brunt of layoffs. But once this had happened, managers were still under pressure to cut costs and raise profits and the share price. This resulted in the downsizing of managerial ranks, particularly middle managers. It has been estimated that 50% of all male managers between the ages of 45 to 54 lost their jobs from 1990 to 1993 (Farber 1997). The idea was that there were too many layers of managers, and therefore removing them would result in savings. This had two impacts on both white-collar and blue-collar workers. First, they grew more insecure about losing their jobs (Blair & Kochan 2000). For white-collar workers, the layoffs produced more pressure for those remaining to work longer hours and be available to deal with work issues at all hours. Thus began the idea that people were available 24 hours a day, seven days a week (Osterman 1999).

Shareholder value pressures also contributed to diminishing job quality. Scholars have shown that beginning in the 1980s, corporations started to cut back on health care benefits and pension payments (Blank 1990, Averett & Hotchkiss 1995, Currie & Yelowitz 1999, Gustman & Steinmeier 1999, Cobb 2015). Before 1985, many American workers had defined pensions: They retired with

a fixed amount of income that depended on how many years they worked at the company and what their final incomes were. By the late 1990s, these had virtually disappeared and were replaced by defined-contribution plans in which individuals took over the responsibility for their pensions. The savings from these expenditures went directly to the bottom line and worked to raise share prices.

This relationship between shareholder value and pension benefit cuts is rife with ironies insofar as demands for greater returns from public sector defined-benefit pension funds such as the California Public Employees' Retirement System helped propel the disappearance of private-sector defined-benefit plans (Jacoby 2021). The fact that the shift to defined-contribution pensions turned a large share of American workers into stockholders also created new kinds of social class contradictions between workers' role as workers and their role as savers whose retirement prospects are tied to shareholder value (Liu & Goldstein 2021).[2] There is some evidence that this shift to 401k-type retirement plans has increasingly realigned workers' political preferences with those of financial markets (Pagliari et al. 2018).

Another set of strategies to increase shareholder value can be put under the rubric of outsourcing. Outsourcing implies buying goods and services that had previously been provided within the firm. Beginning in the 1990s, firms would outsource services like janitorial, security, and accounting to other firms (Weill 2014, Kochan & Dyer 2020). By removing employees, firms paid fewer benefits. From the point of view of the balance sheet, wages and salaries became business expenses. These kinds of gains drove firms to try to figure out which employees were core to their missions and which ones they could outsource (Dey et al. 2012). A second kind of outsourcing was that of plants, office space, and equipment. Historically, firms owned physical assets. But since these assets counted in the calculation of ratios such as return on assets, selling off physical assets and buying them as services that counted as business expenses made corporate performance look better. So, for example, if a firm sold its corporate office for $10 million, that amount would no longer appear in the denominator of the calculation of return on assets. Firms figured out that they could sell assets and pay rent, and even though nothing had materially changed, their returns on assets would go up. Weill (2014) has documented how outsourcing of jobs has continued to increase since 2000.

As part of outsourcing, corporations began in earnest to build global supply chains for their main products. Beginning in the 1980s and continuing into the 1990s and beyond, the American government strongly supported free trade. Indeed, a Democratic Congress in the 1980s refused to force corporations to compensate workers and communities for losses suffered when plant closures occurred when those plants were being sent overseas. This refusal started the exodus of blue-collar workers from the Democratic Party, setting up contemporary politics in which such workers are now the base of the Republican Party (Feigenbaum et al. 2018).

Corporations used free trade as a way to escape from expensive American unionized labor and shift production to lower-wage countries or regions (Bluestone & Harrison 1984, Autor & Dorn 2013). While there were costs associated with doing this, the benefits far outweighed the expenses. Some businesses began to experiment with outsourcing all of their production. Firms like Nike became relatively small companies who basically designed their products and marketed them (Davis 2009), while the production of those products was contracted out to factories in foreign countries with lower wages and fewer labor protections. Apple, for example, assembles all of its iPhones in China, using little or no American labor to produce the product. Globalization meant that financial returns for corporations went up and, with them, so did the price of the stock.

[2]An insightful journalistic account of these contradictions is provided by Brettell et al. (2015).

One interesting body of research has explored how organized labor sought to contest the shareholder value attack on workers by mobilizing the power of labor-affiliated pension funds as a countervailing political force (Webber 2018, Jacoby 2021). This involved compelling large pension funds to use their privileged voices in corporate governance in order to restrain managers' behavior vis-à-vis workers and unions. Although the workers' capital movement has found success in some battles (Webber 2018), there is little evidence that these rearguard efforts have had any systematic effect in staunching declines in job quality (Liu & Goldstein 2021).

SHAREHOLDER VALUE AND RISING INCOME AND WEALTH INEQUALITY

Economic inequality in the United States has risen dramatically since the mid-1970s. Income inequality as measured by the Gini index has increased by roughly 30% between 1970 and the present day, with much of that growth in inequality driven by massive income growth at the top of the earnings distribution (Autor et al. 2006, Piketty & Saez 2006, Kopczuk et al. 2010, Piketty et al. 2018). At the same time, middle-class jobs, defined as those held by people who occupy percentiles 40–80 of the income distribution, have seen their pay stagnate. Wealth inequality has become even more pronounced. The top 1% of the wealth distribution increased their share of overall wealth from 25% in 1980 to 40% in 2016 (Saez & Zucman 2016).

The role of shareholder value capitalism in these changes is multifaceted. Not surprisingly, the various forms of shareholder value–driven corporate restructuring discussed above had far-reaching distributional consequences. They allowed executives to capture economic gain at the expense of production workers (Shin 2014). Shareholders pressured managers to eliminate rents that were built into internal labor markets. Firms responded by opening up once-closed blue-collar labor markets to the external labor market. Without protection from unions or insulation from spot labor markets, production workers lost their monopoly on labor within firms' internal labor markets and accordingly lost their monopoly rents (Dencker & Fang 2016). Managers, however, were able to extract even greater rents as their pay became increasingly tied to their ability to cut labor costs, generate shareholder value by increasing their firm's market value, and secure firm profits from financial income (Westphal & Zajac 1998, Goldstein 2012, Lin & Tomaskovic-Devey 2013, Flaherty 2015, Dencker & Fang 2016).

Shareholder value strategies created conditions that undermined the ability of various groups of workers to maintain their positions. Under pressure from shareholders to cut labor costs, employers sought to achieve greater flexibility and profitability through nonstandard employment relations. Employers began to utilize more contract and temporary workers with no expectation of long-term employment or upward mobility (Kalleberg et al. 2000, Kalleberg 2003) and outsource peripheral and administrative functions (Dey et al. 2012, Weil 2014). These externalization strategies shifted lower-skill work out of large high-paying firms to smaller lower-wage firms, which led workers at the bottom of the occupational distribution to lose out on the wage premiums enjoyed by workers employed by large high-end firms (Pfeffer & Baron 1988, Cobb & Lin 2017).

At the same time, labor unions that bargained to secure high wages and benefits for blue-collar workers saw their political power decline substantially (Fligstein & Shin 2004, Shin 2013). Declining unionization is responsible for rising inequality among union and nonunion workers, accounting for anywhere from one-fifth to one-third of the overall growth in wage inequality from the mid-1970s to mid-2000s (Western & Rosenfeld 2011, Card et al. 2017). While unions' bargaining power eroded, organized corporate interests consolidated their political power and secured bargaining advantages over unions and regulatory gains through lobbying the federal government (Hacker & Pierson 2010).

At the same time that shareholder value capitalism increased wage inequality among employees, the overall share of income going to employees also declined. As the logic of shareholder value capitalism has expanded, the general workforce has found itself more separated from profit-generating processes. As a result, labor finds itself at a greater bargaining disadvantage. Using establishment-level data, Falato et al. (2021) show that greater shareholder value pressures from institutional investors result in lower payrolls. Tomaskovic-Devey & Lin (2013) and Lin (2016) demonstrate that a growing reliance on finance-based income, rising levels of corporate debt, and shareholder distributions are strongly associated with a decline in the labor share of corporate income paid to workers and diminished firm employment (also see Alvarez 2015). Kristal (2013), meanwhile, suggests that computerization—which was a key shareholder value tactic during the 1980s and 1990s (Fligstein & Shin 2007)—was the primary contributor to the decline in labor's positional power and income share, especially in manufacturing and transportation sectors.

The finance-driven restructuring of nonfinancial firms also had second-order effects on inequality by redistributing large gains to the financial service industries, as extracted resources and rising equity asset values were redirected to other uses. Although employment in the finance industry has remained relatively low and stable since the postwar period, its share of corporate profits in the US economy more than quadrupled from just over 10% in 1950 to about 45% in 2000, while its share of the economy and employment have remained relatively stable (Krippner 2005). Financialization has had a substantial effect on changes in the income distribution over the past 40 years. Philippon & Reshef (2012) estimate that 15% to 25% of the overall increase in wage inequality since 1980 is attributable to income gains in the finance industry alone. At the same time as the finance sector came to command an additional $6.5 trillion in profits, compensation among those employed in finance rose from being about average compared with the overall economy to being 50% to 60% higher than the rest of the economy (Tomaskovic-Devey & Lin 2011, Philippon & Reshef 2012). These gains were disproportionately enjoyed by top managers and executives. Since the mid-1990s, CEOs in finance have enjoyed a 250% wage premium relative to CEOs in other sectors (Philippon & Reshef 2012). Although it is difficult to isolate the direct and indirect contributions of shareholder value capitalism to the growth of the finance sector since the 1980s, they are clearly linked.

FINANCIALIZATION AND SHAREHOLDER VALUE

Since the 2000s, the study of shareholder value capitalism has been partly subsumed within a broader literature on financialization. The idea of financialization emerged in heterodox, or what might be termed post-Keynesian, economic thought as an alternative view of the way to characterize the modern version of capitalism (Epstein 2005). One of the most widely cited definitions of financialization is "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005, p. 3). An alternative but related definition offered by Krippner (2005, p. 174) defines it as "a pattern of accumulation in which profits accrue primarily through financial channels." For these scholars, financialization reflects the growing dominance of finance over the real economy (Orhangazi 2008, Stockhammer 2004, Palley 2013). Others relate the term to the growing size and liquidity of financial markets (Aglietta & Rebérioux 2005, Carruthers 2015). Financialization is a broad label that covers various empirical phenomena at different levels of analysis (for a review, see Van der Zwan 2014).

While scholars who use the term financialization sometimes ignore the literature on shareholder value capitalism, their arguments engage many of the same features as the ones put forward here. Most scholars agree that financialization is a deeper historical transformation in the

structure of capitalist economies whose roots parallel the analysis of shareholder value presented earlier. They agree that the financial crisis of the 1970s precipitated a change in the underlying logic of capitalism. They also view owners of financial assets as the principal beneficiaries of this change. At the center of financialization is the idea that "wealthy people who get most of their incomes from owning financial assets, rather than working or from owning productive assets" see their income and wealth grow more dramatically over time (Epstein & Power 2003, p. 3). Scholars have used a number of different metrics to index these shifts, including changes in the share of interest and dividends in national income (Stockhammer 2004, Orhangazi 2008, Hein 2012), the profits of financial institutions (Epstein & Power 2003, Jayadev & Epstein 2007, Tomaskovic-Devey & Lin 2011), the property income of households (e.g., Dünhaupt 2012), and share of business income and/or assets from financial sources (e.g., Krippner 2005, Rabinovich 2019).

One main difference between these literatures at a conceptual level is which processes are thought to be subsuming others. From the vantage of macrolevel conceptualizations of financialization, shareholder value is simply one facet of the growing power of finance over the real economy. Meanwhile, the shareholder value literature treats investor power as predating and driving the financialization of accumulation in nonfinancial corporations. As investor extraction led to underinvestment, firms sought to substitute various forms of financial machinations for their diminished productive capacity. The mechanism of change for the shareholder value perspective emanates from the transformation of corporate governance in the 1980s through the realignment of power between managers and shareholders, and the construction of strategies to increase the returns to shareholders at the expense of workers (for an historical perspective on this issue, see Knafo & Dutta 2020).

Some firm-level studies have sought to put these concepts into conversation by analyzing the financialization of business strategy as a type of shareholder value tactic (Davis 2018b, Pernell 2020, Jung & Lee 2021), or as a redistributive mechanism within firms (Lin & Tomaskovic-Devey 2013). It remains unclear, however, to what extent the financialization of nonfinancial firms' assets and accumulation strategies is directly tied to the power of investors over firms. Moreover, there is abundant evidence that the vast majority of corporations have redirected increased shares of resources to financial markets over the past four decades, as emphasized by the shareholder value perspective. In contrast, careful analysis of cash flow and asset statements reveals that accumulation from financial channels in nonfinancial corporations has been significantly less widespread (Rabinovich 2019; see also Soener 2015). This suggests that when it comes to nonfinancial corporations, the primary face of financialization appears in the guise of shareholder value management rather than financial accumulation. Continuing dialogue between scholars who focus on financialization and those who still see remnants of shareholder value could yield insights about the various ways in which the processes are similar or different and what can be learned by empirically examining the differences.

WHITHER SHAREHOLDER VALUE CAPITALISM OR SHAREHOLDER VALUE 2.0?

One could make the case that shareholder value as a description of the core dynamics of American capitalism has run its course. The idea that twenty-first-century American companies are being run narrowly in the interests of investors does run in the face of several contrary data points. In the aggregate, large public corporations no longer occupy the same core socioeconomic position that they did four decades ago. The number of US exchange-traded firms declined from over 7,300 at its high point in 1996, to just 3,600 by 2016. Davis (2016) argues that this is one of the legacies of shareholder value, as corporations have either been swallowed up or taken private in order to

escape the relentless need to show higher quarterly returns. He also argues that the remaining publicly held corporations do not employ as many people, making them financially valuable but not as important as employers. By this account, shareholder value capitalism cannibalized itself: There are fewer large corporations, and they no longer play a predominant role in structuring their members' life chances. Workers have been largely outsourced or disempowered. This means that there is less left for investors to extract through the old tactics of divestitures and de-unionization.

Second, many of most successful and dynamic firms in the twenty-first century—particularly those in the technology sector—have largely resisted the standard doctrine of shareholder primacy. The Silicon Valley model of creating new ventures has generated innovation that does not rely on quarterly reports to financial analysts and is largely unresponsive to investors' interests in short-term performance. Firms such as Facebook and Tesla remain buffered from investor pressures by governance mechanisms that allow their founders to maintain dominant control. Jeff Bezos, the CEO of Amazon until 2021, famously spent years growing his company and ignoring the pleas of the financial community to begin to make profits. Instead, he kept investing cash flow into new businesses, some of which expanded dramatically, and others which failed and disappeared. He ended up being one of the richest people in the world.

Third, there are indications that the ideology of shareholder value is being deinstitutionalized among segments of the business elites (Stout 2012). In 2019, the Business Roundtable, an influential association of corporate executives, revised its official stance on the purpose of the corporation, replacing its commitment to shareholder primacy (which had been its policy since 1997) with a multistakeholder conception. Although such symbolic pronouncements do not augur shifts in actual practices, they do suggest that shareholder value ideology has become a political liability and may be losing its sway as a normative institution or explicit basis of justification for managerial behavior.

Finally, finance has largely moved on. Having long ago succeeded in disciplining nonfinancial corporations to prioritize investor returns, the investment banks, pension funds, and leveraged buyout funds that propelled the shareholder value revolution have increasingly turned their focus to other ways of making money and transforming socioeconomic relations. These include such areas as securitization and structured financial derivatives, financial technology (fintech), lending, high-frequency trading, and private equity (Fligstein 2021).

While all of this is certainly true, shareholder value capitalism is now institutionalized, meaning that its core ideas are part of the way that people get jobs, work, get fired, and accumulate wealth. This institutionalization looks much like the process described by Berger & Luckmann (1966). In the first generation, a new set of meanings arises and seems new and novel. But in the second generation, it becomes taken for granted and just how things work. The workforce has almost entirely turned over since 1980. This means that almost no one remembers a time when people worked for the same corporation all their lives and pensions and benefits were part of how firms show loyalty toward workers. Now, everyone expects work to be insecure and low paid, to provide few benefits, and to make workers feel expendable. No one sees this as shareholder value capitalism: It is just capitalism.

The pressure to increase stock prices has not abated since the 1990s. Managers know that to fund buybacks and keep earnings up, they need to constantly lower costs and reduce the importance of labor by investing in technology, outsourcing, and using global supply chains. These imperatives continue to place downward pressure on labor's share of income, even as increased outsourcing and reduced corporate employment (Davis 2016) mean that the effects of cost-cutting on workers are manifested less through their already downsized workforces, and instead increasingly through large firms squeezing their suppliers (Wilmers 2018).

Hostile takeovers have become rarer as managers have learned to limit their vulnerability, but managers still must satisfy financial institutions and financial analysts to retain their compensation. Activist hedge funds—which do not engage in full-fledged takeovers—often achieve a similar effect by acquiring a minority share and mounting vocal public campaigns against management teams who are deemed to be leaving shareholder returns on the table. This results in continued forms of extractive corporate reorganization (DesJardine & Durand 2020, Mishel & Bivens 2021).

Private equity can also be viewed as a twist on the shareholder value idea. In this case, shareholders invest in firms that operate a group of firms, just like a 1960s conglomerate did. Private equity managers worry about rates of return on their capital and make investments to maximize those returns. They frequently load companies up with debt, restructure them, and often sell those companies back into the public markets to recoup their investment (Appelbaum & Batt 2014). Indeed, private equity is the main mechanism through which the tenets of shareholder value have spread to new domains beyond publicly traded corporations. This can be seen as an extension of the same process of tactical innovation that we discussed above: having run out of ways to extract resources in public firms, private equity firms have increasingly sought to invade, rationalize, and extract returns in fields traditionally populated by small proprietorships, partnerships, or nonprofits. Key examples of private equity reorganizing firms in existing markets include nursing homes and medical practices, single-family home rentals, and for-profit colleges (Eaton et al. 2020, Gupta et al. 2021).

CONCLUSION: FUTURE RESEARCH

We close by highlighting several key areas for future research about the course of shareholder value capitalism in the twenty-first century. First, how susceptible is shareholder value capitalism to ideational and political change? For decades the system described above has been undergirded by a dominant ideological doctrine of investor primacy. Since the 2008 financial crisis, however, many of the core tenets, assumptions, and tactics of shareholder value have come under sustained assault not only from labor and environmental activists but also from the managerial community and factions of financial elites. It is important to study whether these conflicts are being met by empty rhetoric on the part of organizations like the Business Roundtable and the World Economic Forum, or whether they spur firms to become less responsive to the myopic demands of financial markets. How (if at all) do the dynamics of shareholder value change in the aftermath of shareholder value ideology?

Related to the above, financial market pressures have, meanwhile, also become more varied as a result of transformations in asset management. The rapid growth of socially responsible investment funds adhering to environmental, social, and governance standards; long-term oriented index fund managers (patient capital); and large socially activist pension funds all confront firms with more heterogenous articulations of shareholder demands (Braun 2021). Scholars should assess how these varied investor demands might be altering managerial behavior and how distinct factions and forms of capital are driving distinct trajectories of development within financial capitalism.

Finally, the growth of private equity highlights the need for more research on how shareholder value extraction works outside of large publicly traded corporations (Appelbaum & Batt 2014). Rather than capturing rents from fragmenting corporate bureaucracies and squeezing workers, the logic of financial extraction here often involves merging small operations in order to more efficiently exploit governmental subsidies, lax regulations, and vulnerable consumers (Eaton et al. 2020, Eaton 2020). Such dynamics also highlight the need for scholars to expand studies on the effects of shareholder value management to encompass a wider array of actors beyond workers.

For instance, recent studies have begun to ask how investor ownership affects rates of eviction in home rental markets (Raymond et al. 2016), or to what extent cost-cutting in the aftermath of private equity takeovers of nursing homes contributed to elder deaths during the COVID-19 pandemic (Gupta et al. 2021).

All of this suggests the enduring legacy of the shareholder value system. In the beginning of this article, shareholder value was described as an ideology, a set of power relations between owners and management, a set of business strategies, and a common set of understandings about how to evaluate the performance of corporations. The forms of this system have changed, as this article documents, in the past 40 years. But the notion that owners have priority over stakeholders and the evolving tactics of using financial ploys to extract more profit have remained. While many of its core ideas have become standard operating practices, shareholder value continues to produce new innovations and twists on its basic logic. Subsequent research should pay attention to how the old forms of wealth extraction remain robust, even as the pressures to find new forms evolve.

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