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Reconsidering the Rise of 'Shareholder Value' in the United States, 1960-2000

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Abstract

This study analyses thousands of corporate annual reports and financial data from 1960-2000 to propose an early history of the term 'shareholder value' in the United States. Scholarly interest in 'shareholder value' has burgeoned since 2000, but still little is known about the term's origins. My findings suggest that corporate managers' intentional and repeated use of the term did not begin until the early 1980s and was not widespread until the 1990s. Further, my analysis of General Electric Corporation, Johnson & Johnson, and The Coca-Cola Company suggests that adopting 'shareholder value' rhetoric likely had little impact on the performance of these case study firms.

Keywords: Corporate Governance; Shareholder; Corporations; Firm Behaviour; Corporate Payout; Corporate Control; Firm Objectives; Dividend, Management
JEL Codes: D21; G30; G34; G35; L21; N82

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INTRODUCTION

For three decades, the term 'shareholder value' has attracted great amounts of attention in the literature. Considering the frequent use of the term, surprisingly little is known about its history. In this study I offer new insight to when and how the term 'shareholder value' became prominent among U.S. corporate managers. I investigate two questions: first, when and in what context did 'shareholder value' emerge; and second, did the emergence of 'shareholder value' affect corporate strategy and governance?

Colin Mayer argues shareholder value at its basic level is a straightforward concept: "shareholders own the corporation and, not unreasonably, they therefore expect their employees to run the corporation in their interest."[1] But because value is inherently subjective, specific shareholder interests are difficult to define, let alone measure.[2] For this reason, most studies, including this paper, use financial gains achieved as a result of owning corporate stock as a proxy for these interests.

'Shareholder value' was a fairly new term in managerial lexicons beginning in the 1980s. Even younger is the academic assessment of the concept and its effects on macroeconomic trends.[3] The majority of these assessments, which will be reviewed, are narratives that argue the rise of 'shareholder value' drove managers to imprudently promote shareholder interests while harming employee, customer, and societal well-being.[4]

These shareholder value narratives rely on macroeconomic evidence to support theories of changing corporate strategy and governance.[5] Indeed, macroeconomic trends clearly indicate corporations underwent great change in this period.[6] But what remains unclear—thus suggesting a weakness in today's narratives—is whether the shareholder value concept was indeed the catalyst of these changes. Macroeconomic evidence is inappropriate as support for a theory of corporate change because decisions to alter corporate strategy and governance would certainly have occurred at the individual firm level.

The unique contribution of this study is a microeconomic analysis of the rise of 'shareholder value.' This analysis is divided into three sections. I first analyse when

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[1] Mayer (2013, p. 27)

[2] These debates discussing the role of the corporation are important but are outside the scope of this study. An example is the debate on whether or not corporations ought to engage in corporate social responsibility.

[3] William Lazonick and Mary O'Sullivan's 2000 paper "Maximizing Shareholder Value: A New Ideology for Corporate Governance" was one of the first to argue that managers' pursuit of 'shareholder value' affected macroeconomic trends.

[4] See, for example, Chassagnon and Hollandts (2014), Lazonick (2014), Lazonick (2010a), and Lazonick and O'Sullivan (2000). This is not to say shareholder value does not have its defenders, e.g. Vermaelen (2009).

[5] Lazonick (2000), Lazonick (2010b). There are exceptions to the rule. For example, Dial and Murphy (1995) presents a case study approach of how General Dynamics Corporation employed new management strategies in the 1990s to combat a decline in profitability.

[6] Poterba (2000) demonstrates the rise of corporate profit and shareholder returns; Bagwell and Shoven (1989) discuss and foretell increases in share repurchases as a means of enriching shareholders; data such as those in Economic Report of the President (2000, Table B-88, p.409) indicate increased shareholder enrichment, 1960-2000.

and in what context managers began to use the term 'shareholder value' in corporate annual reports. Having thus established when the concept of shareholder value emerged, the second and third sections assess to what extent the rise of 'shareholder value' affected corporate governance decisions for three large case study corporations: General Electric Company, Johnson & Johnson, and the Coca-Cola Company. I use the 'retain-and-reinvest' and 'downsize-and distribute' elements of Lazonick's narrative as criteria to gauge whether or not the shareholder value concept influenced corporate governance decisions.[7] Specifically, I investigate whether the rise of 'shareholder value' may have changed managers' preferences for shareholding versus non-shareholding constituencies (i.e. other stakeholders). I test this by analysing the language of the three corporations' annual reports and then their financial statistics.

My findings suggest that narratives connecting the rise of 'shareholder value' and macroeconomic trends without supporting microeconomic evidence should be treated with intense scepticism. These narratives misrepresent the timing of the term's arrival on the corporate stage and likely overstate the significance of its actual effects on corporate strategy and governance decisions.

LITERATURE REVIEW

Contemporary 'Shareholder Value' Narratives

A major contributor to the late twentieth-century business history literature, William Lazonick argues that a business model is comprised of strategic, organisational, and financial components.[8] According to Lazonick, the shareholder value concept drove managers to change each of these components to favour shareholders' interests.[9] He believes this change was revolutionary in the likes the of the Chandlerian managerial, vertically-integrated firm.[10] Lazonick argues that beginning in the 1970s Chandler's "old-economy business model…began to break down"[11] and that corporations moved from a strategy of "retain and reinvest"—characterised by high investment in research, plant and equipment, and personnel—to one of "downsize and distribute,"[12] in which managers cut their labour force and distributed cash to shareholders in the name of "superior economic performance."[13] In short, Lazonick argues short-term shareholders reaped benefits at the expense of other stakeholders, including long-term shareholders, in this period.

[7] Lazonick and O'Sullivan (2000) and Lazonick (2014) argue that in the 1970s and 1980s corporations imprudently distributed corporate resources to shareholders (downsize-and-distribute) instead of reinvesting those resources internally (retain-and-reinvest).

[8] Lazonick (2010a, 678)

[9] Ibid.

[10] Ibid. Chandler (1977) argued that technological and legal developments facilitated a separation of ownership and control, which allowed firms to grow extremely large in their scale and scope of output.

[11] Ibid. (p. 677)

[12] Lazonick and O'Sullivan (2000, p. 17-18); Lazonick (2014, p. 3)

[13] Lazonick (2008, p 480)

Lazonick argues the effect of the shareholder value concept's downsize-and-distribute thinking "had detrimental effects for overall economic performance."[14] He clearly documents independent macroeconomic trends such as increases in shareholder returns and share repurchases and decreased research and development expenditure.[15] His next steps, though, are dubious. He documents increasingly unequal income distribution, increased levels of unemployment, higher executive compensation, and decreasing wage to productivity ratios. Then he simply argues the rise of the shareholder value concept is to blame for these trends.[16] Thus he presents evidence that (1) the shareholder value concept influenced managers and corporate governance, and (2) that there were changing macroeconomic trends in the 1970s and 1980s. His assumption that the two are linked is quite a logical leap.

Lazonick's tells this history of the concept through the theoretical academic literature rather than actual management decisions. He cites the rise of agency theory in the financial economics literature as the source of the shareholder value concept. Ross (1973) and Jensen and Meckling (1976) are two early papers that identify corporate managers as the agents of shareholders, or the 'principals.'[17] Expanding on the work of Alchian and Demsetz,[18] Jensen over time supported to the notion that the contract structure of the firm does not adequately discipline managers because they have incentives to "cause firms to grow beyond the optimal size" and to increase "the resources under their control."[19] Jensen specifically takes issue with how managers allocate free cash flows for unproductive projects or perquisites rather than for the most profitable pursuits.[20] Jensen's contribution to the corporate governance debate was the recommendation that managers "disgorge" this free cash flow to shareholders rather than investing or spending it unproductively.[21] Thus, Jensen argues, managers' incentives ought to be aligned with those of shareholders through stock-based pay.[22]

Macroeconomic evidence indicates that corporations did indeed "disgorge" cash as Jensen suggested.[23] Lazonick may be correct that these academic arguments at least to some extent influenced corporate managers. What is not clear, though, is at what point in time and to what extent agency theory indeed mattered. Johan Heilbron et al. (2013) analyse citation counts for Jensen Meckling's 1976 paper and determine the papers did not gain traction in the financial economics literature until 1987.[24] Unless agency theory influenced managers before it influenced academics—an

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[14] Lazonick and O'Sullivan (2000, p. 30)

[15] Lazonick and O'Sullivan (2000, p. 19-27)

[16] Ibid.

[17] Ross (1973); Jensen and Meckling (1976)

[18] Alchian and Demstz (1972) laid the foundation for the theory of the firm as a nexus of contracts.

[19] Jensen (1986, p. 323)

[20] Ibid.; Jensen (1988)

[21] Jensen (1986, p. 323)

[22] Ibid.

[23] Ibid. I use Jensen's term 'disgorge' throughout this study. My discussion of macroeconomic evidence is in 2.2

[24] Heilbron et al. (2013, p. 22). Before 1987 there were very few citations of Jensen and Meckling's paper in *The Journal of Financial Economics*: two in 1978, three in 1983, three in 1985, and one in 1986. In 1987 the paper was cited nine times and was cited at least ten times 1988-1990

unlikely scenario—then Jensen and Meckling's arguments were probably not performative until the late 1980s.

The role of macroeconomic and microeconomic evidence

It is evident United States corporate financial trends transformed in the 1970s and 1980s. Specifically, there is abundant evidence that corporations altered the way they engaged their shareholders. Corporations began to repurchase their own stock more aggressively, which contributed to the return of larger percentages of net income to shareholders by inflating the stock price.[25] For example, in 1972 U.S. corporations returned 42% of their net income to shareholders in the form of dividends and share repurchases.[26] By 1990 this fraction had risen to 75%.[27] Among the reasons corporations were motivated to repurchase shares were lacking superior investment opportunities, to favourably balance leverage, or simply to transfer corporate wealth to shareholders.[28] Indeed, in this period managers began to use share repurchases to supplement or substitute for dividends as the means of distributing cash to shareholders.[29]

Macroeconomic analysis is of course necessary to understand corporate trends, but only firm-level analysis can assess what were the specific management decisions that may have influenced this change. Macroeconomic analysis can only demonstrate a change occurred. Thus authors linking management decisions to macroeconomic trends rely heavily on their assumptions.

Firm-level analysis, though, may suffer from opposite issues. Individual case studies have the potential to convey detailed information about managers' decisions and the motives behind them, but one cannot be certain to what extent each case study is representative of other corporations.

The emergence of the shareholder value concept

Without this firm-level analysis into managers' actual decisions, the question of precisely when shareholder value emerged remains unanswered. This is why business historians including Lazonick cannot point to a specific date or event to as the onset of the shareholder value concept. Instead, what is common in the literature is to identify a general time period as when the ideology took firm hold in corporations. For example, Ralph Gomory and Richard Sylla simply argue that "in the period from the 1980s to the present" there was a "major shift away from a broad view of stakeholder interests to an almost exclusive focus on shareholder value."[30] Steven Pearlstein argues Milton Friedman "first articulated the idea" in his famous 1971 *The New York Times Magazine* article 'The Social Responsibility of Business is to Increase its Profits,'[31] but Pearlstein argues the shareholder value concept

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[25] Bagwell and Shoven (1989, p. 130, 137)
[26]Weston and Siu (2002, p. 43). 1972 is the earliest available year in this dataset.
[27] Ibid.
[28] Boudry et al. (2013, p. 24-25); Wansley et al. (1989, p. 97-98)
[29] Bagwell and Shoven (1989, p. 131)
[30] Gomory and Sylla (2013, p. 108)
[31] Pearlstein (2014, p. 6) citing Friedman (1971)

arrived ‘in the 1970s and 1980s.”[32] Similarly, Lazonick points to “the late 1970s” as the onset of the shareholder value concept began but not to a specific date.[33]

Other studies point not to the origins but rather to a moment when it was clear the shareholder value concept had become dominant in corporate governance. For example, Virgile Chassagnon and Xavier Hollandts point to the year 2000 as the date when shareholders’ interests reigned supreme.[34] Lynn Stout claims that by the turn of the twenty-first century, the shareholder value concept had reached its “zenith.”[35] This was the year when legal scholars Reinier Kraakman and Henry Hansmann argued “ultimate control over the corporation” rested with “the shareholder class”; other stakeholders such as customers and employees “should have their interests protected by contractual and regulatory means.”[36]Although it is certainly valuable to know the shareholder value concept was dominant by the year 2000, without an understanding of when the concept first emerged and then gained prominence scholars cannot identify at precisely what point the concept may have begun to influence macroeconomic outcomes.

The most specific analysis of the emergence of ‘shareholder value’ is a 2013 study by Johan Heilbron et al.[37] In this study the authors analyse the usage frequency of the term ‘shareholder value’ over time in *The Wall Street Journal* newspaper and find that the term was not widely used until the mid-1980s.[38] This study has two principal weaknesses. The first is the use of *The Wall Street Journal* as a data source: although the newspaper “is considered to be fairly reliable for corporate developments in corporate America,” changes in the articles and advertisements in the newspaper represent changes in the rhetoric of journalists rather than of actual managers. The second weakness is that the authors limit their analysis to use of the term ‘shareholder value’ but exclude substitute terms such as ‘share owner value’ and ‘stockholder value,’ which managers frequently used to describe the same concept. Despite these weaknesses, their basic research framework is strong, and I use their method as a foundation for my analysis.

The literature has thus produced theories of how the rise of the shareholder value concept affected corporate governance. Also well documented are the macroeconomic changes of corporate financial variables. What is lacking is qualitative empirical evidence that connects these macroeconomic changes with the management concept of ‘shareholder value.’ The rest of this study provides new insight to begin to fill these voids in the literature.

RESEARCH METHODS

Having established that the current literature’s account of the emergence of the term ‘shareholder value’ is inadequate; I thus provide a more precise analysis of

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32 Ibid. (p. 5)
33 Lazonick (2014, p. 5)
34 Chassagnon and Hollandts (2014, p. 47)
35 Stout (2012, p. 21)
36 Ibid. citing Kraakman and Hansmann (2001)
37 Heilbron et al. (2013)
38 Ibid. (p. 23-24)

when and how shareholder value rhetoric emerged in the United States. I do so by analysing corporate annual reports and corporate financial statistics as evidence.

Annual reports are suitable data for two reasons. First, the reports are the product of corporate managers, which means the text offers direct insight into the managers' thoughts and intentions. Second, they offer these snapshots of corporate management at regular intervals. There are potential issues with the reliability of information in annual reports because of their subjectivity. For example, managers may "cover up" poor performance to enhance their image in the annual reports.[39] I do not think this subjectivity will bias my results because use of shareholder value rhetoric reflects managers' intentions rather than their performance.

The composition of a conventional corporate annual report is as follows. The report generally opens with a brief summary of the firm's financial activity and accomplishments of the past year in the form of a letter to shareholders, which is signed by a high-level manager such as the Chief Executive Officer or Chairman of the Board.[40] After this letter, the reports usually highlight various aspects of the corporation's activity over the past year, which may include topics such as strategies, investments, research breakthroughs, and structural changes. Financial statements and an audit report, which are products of an independent third party rather than the management, are typically toward the end of the report. Management's discussion of the year's financial statements either precedes or follows the financial statements.

I determine as precisely as possible when the term 'shareholder value' was first used in an annual report and then when it became extensively used. To do so I use the *ProQuest* Historical Annual Reports database to conduct a text search of a very large sample of corporate annual reports.[41] I searched all annual reports in the database for the term 'shareholder value,' as well as all substitute terms including 'share holder value,' 'shareowner value,' 'share owner value,' 'stockholder value,' 'stock holder value,' 'stockowner value,' and 'stock owner value.'[42] I then sort the results by date and determine when were the earliest uses of the term, when the term was used more extensively, and in what context early users employed the term. Because the numbers of reports varies each year, I analyse the percentage of corporations in the database that used these term in each year rather than the simple raw count. The large sample size suggests the trends I describe are reliable.[43]

Next, I determine how the emergence of shareholder value may have affected managers' treatment of shareholders versus other stakeholders. Due to space constraints I limit my analysis to three case study corporations: The Coca-Cola Company (KO), General Electric Company (GE), and Johnson and Johnson (JNJ), which I chose deliberately: all three corporations were among the largest industrial

[39] Murphy and Zimmerman (1993, p. 275)

[40] Some corporations experimented with addressing the letter to numerous stakeholders. For example, in 1997 GE addressed their opening letter to 'share owners and employees' and in 1998 to 'shareholders, employees, and customers'

[41] The *ProQuest* Historical Annual Reports database "contains over 1.3 million pages from over 43,000 annual reports from over 800 companies." Reports date from 1844-2012, and most reports are from the last fifty years.

[42] From this point forward, any mention of 'shareholder value' includes these substitute terms.

[43] From 1960-69, 1970-79, 1980-89, and 1990-99 there were on average 636, 630, 418, and 299 reports per year, respectively.

firms in the United States from 1960-2000 and the growth trends of their net incomes closely resemble the national corporate average. I selected GE and KO because they are cited as paragons of the shareholder value management concept.[44] I selected JNJ because of its entirely dissimilar stated management strategy: JNJ explicitly pledged to treat shareholders as the most peripheral of their corporate beginning in 1963. Because JNJ's stated corporate governance model emphasised customers, suppliers, employees, and society above shareholders, I treat JNJ as a control; they represent the opposite of the shareholder value management concept.

I analyse how these three corporations' annual reports and financial statistics changed relative to three points in time, which I call critical years. The first, year *DD* (downsize-and-distribute), represents Lazonick's general claim that U.S. corporations began to exude shareholder value maximising behaviour in the late 1970s.[45] The second, year *RP* (repurchase), represents the first recorded year the corporation repurchased its own stock shares. The final point in time, year *SH* (shareholder), represents the first year the corporation used the term 'shareholder value' in an annual report. Table 1 exhibits the critical years for each case study corporation.

TABLE 1
DEFINITION OF CRITICAL YEARS

	DD	*RP*	*SH*
	Late 1970s	First recorded share repurchase	First use of "SHV"
GE	1978	1978	1994
JNJ	1978	1984	1993
KO	1978	1984	1984

I determine if changes to any variables—rhetorical or financial—occurred before or after these critical years. Analysing general trends may suggest that a change occurred, but this more precise analysis will allow me to argue what may or may not have contributed to this change. For example, if usage of the term 'profit' increased in frequency before the year *SH*, then it is unlikely that the adoption of shareholder rhetoric affected a corporation's focus on profits.

I first analyse the emergence and context of the term 'shareholder value' in the three case study corporations. The objective is to establish when and in what context the term was adopted for each corporation. I then determine how frequently managers mentioned various corporate constituencies and if these frequencies changed following any of the critical years.

To investigate when and in what context each corporation used 'shareholder value' I used the *ProQuest* Historical Annual Reports database to access and download the corporate annual reports for GE, JNJ, and KO for 41 years from 1960-2000. I then used optimal character recognition software to transform the files, which were downloaded as images, into searchable text files. With few exceptions the

[44] See, for example, Lazonick anad O'Sullivan (2000, p. 23-24); Pearlstein (2014, p. 18)
[45] Lazonick (2014, p. 5)

reports were available and the text in the original files from the *ProQuest* database was clear enough for the software to fully recognise. Only the GE annual report for 1961, JNJ annual reports for 1989 and 1990 and the KO reports for 1960-1965 and 1995 are excluded from analysis because either they were unavailable in the *ProQuest* database or the software found them illegible.

I searched each annual report to determine how frequently corporations used seven different terms, each of which I argue represents a particular corporate constituency. Table 2 exhibits the words chosen and their representative corporate constituency.

TABLE 2
KEY TERMS AND REPRESENTATIVE CONSTITUENCIES

Term	**Corporate constituency**
‘shareholder’	Shareholders
‘shareholder value’	Shareholders
‘profit’	Shareholders
‘employee’	Employees
‘research’	Corporation’s future
‘customer’	Customers

My searches for ‘shareholder’ and ‘shareholder value’ also include the substitute terms for ‘shareholder.’ In the count for ‘shareholder’ I am only interested in references to the shareholder entity; thus I exclude from the count uses of specific accounting terms such as ‘shareholder equity.’

It is necessary to adjust the data beyond the raw count of number of uses for two reasons. First, the length of the reports and their level of detail increased substantially between 1960-2000. Second, the financial statements and audit report sections of the reports are not the management’s creation and thus should not be considered in analysis of management rhetoric. Therefore, it is necessary to adjust the data beyond a raw count of simple number. To determine $F(p)(t)$, the number of times phrase p appears per 100 pages of strictly management-produced text in year (t), I use the following formula,

$$F(p)(t) = \frac{100\, f(p)}{T - A}$$

where f is the number of uses of phrase (p) in management-produced text, A is the number of pages in the auditor’s report, and T is the total number of pages in the report.

I assume that a higher $F(p)(t)$ for phrases representing one constituency indicates an increase in the level of management’s commitment to that constituency’s interests. For example, if in period t-10 to t there was a noticeable increase in $F(\text{‘shareholder’})$ and a decline in $F(\text{‘employee’})$ then I assume that managers’ preferences changed from t-10 to t to favour shareholder interests over employee interests.

I then analyse trends in the three case study corporations' financial statistics. Specifically, I analyse the values for total dividend payments; share repurchases; research and development; and property, plant, and equipment expenditures as a fraction of net income. Financial data are inherently subject to countless exogenous factors such as macroeconomic activity and industry and technology trends. As a result, changes in financial trends cannot be entirely attributed to shifting attitudes or preferences of managers. For example, a manager may set a goal for the corporation's profits or share price, but the manager cannot determine those values outright. Therefore I take two steps to isolate managers' preferences in financial data. First, I only analyse financial variables whose value is the product of managers' discretion. Managers directly determine the allocation of net income and cash, so I analyse various expenditure variables.[46] Second, I isolate variables from annual fluctuations in corporate performance or macroeconomic trends by analysing the variables as a fraction of net income instead of in absolute terms. Net income increased fairly consistently and monotonically from 1960-2000, and thus a change in *dividend*, *repurchase*, *r&d*, or *ppe*, represents a deliberate change in management's decision of how to allocate net income.[47] Table 3 defines these variables.

TABLE 3
DEFINITION OF VARIABLES

	Downsize and Distribute		**Retain and Reinvest**	
	RETURNS = returns to shareholders as dividends and repurchases		*REINVEST* = reinvestment in corporation as R&D and PPE	
Variable Definition	*dividend* Net income returned to shareholders via dividends (%)	*repurchase* Net income returned to shareholders via repurchases (%)	*r&d* Net income spent on research and development (%)	*ppe* Net income spent on additions to property, plant, and equipment (%)
Source	Compustat database (DVT)	Compustat database (PRSKTC) and annual reports	Annual reports	Compustat database (CAPX)

Notes: KO is not a research-intensive corporation and data for *r&d* are unavailable. Thus *REINVEST* for KO equals *ppe*.

[46] Jensen (1986; 1988)
[47] Data from net income are from the Compustat database (variable NI).

Relative increases increases in *dividend*[48] and *repurchase* indicate downsize-and-distribute behaviour; their sum equals *RETURNS*, cash distributed to shareholders. Relative increases in *r&d* and *ppe* indicate retain-and-reinvest; their sum equals *REINVEST*. Data for these variables are obtained from either corporate annual reports or the Compustat database.

I plot value for variables *RETURNS* and *REINVEST* from 1960-2000 and analyse trends relative to the three critical years.

THE EMERGENCE AND EARLY CONTEXT OF 'SHAREHOLDER VALUE'

First I demonstrate as precisely as possible when use of the term 'shareholder value' first appeared and then became a commonly appearing term in my sample of corporate annual reports. Second, I explain managers' definition of 'shareholder value' in their earliest uses of the term and whether this definition changed over time. This insight frames the debate of how 'shareholder value' may have influenced corporate governance: the concept cannot be responsible for economic changes occurring before evidence of the concept existed.

Emergence of shareholder value rhetoric

My empirical findings largely corroborate those of Heilbron et al., who find that the first use of the term 'shareholder value' in *The Wall Street Journal* was in 1965 and that the phrase was used sparingly before 1983.[49] These data are exhibited in Figure 2. Heilbron et al. find that usage frequency rose sharply in the 1980s; over 200 newspaper articles mentioned the term in both 1988 and 1989 compared to fewer than ten articles before 1983.[50] After a short decline in the 1990s, there was a second wave with the "bull market of the 1990s."[51]

I find the first use of the term 'shareholder value' occurred in the *ProQuest* database in 1965. There was also a sharp increase in usage frequency beginning in approximately 1983. A third similarity with Heilbron et al.'s data is that they increased in two distinct periods. After a sharp rise from 1983-1987, the percentage of corporations in the database using 'shareholder value' remained at approximately 30% until 1993. From 1993-2000 there was a second wave: at least 40% of corporations in the database used the term. It is likely that once a corporation began to use the term they continued to do so, which would explain why the data in Figure 1 are generally monotonic whilst Heilbron et al.'s are not.[52]

The increase in usage frequency from 1981-1985 is very important because the data move from near zero to over 50. A momentous change also occurred in the mid-1990s: usage frequency increased more than threefold from 1992-97. These data suggest that the emergence of shareholder value rhetoric in corporations occurred in

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[48] This value is total dividend expenditure. Thus there is no need to account for stock splits, which occurred frequently among all three corporations in this period.

[49] Heilbron et al. (2014, p. 7)

[50] Ibid. (p. 7-8)

[51] Ibid. (p. 8)

[52] After 1995 the percentage of corporations using 'shareholder value' decreases slightly.

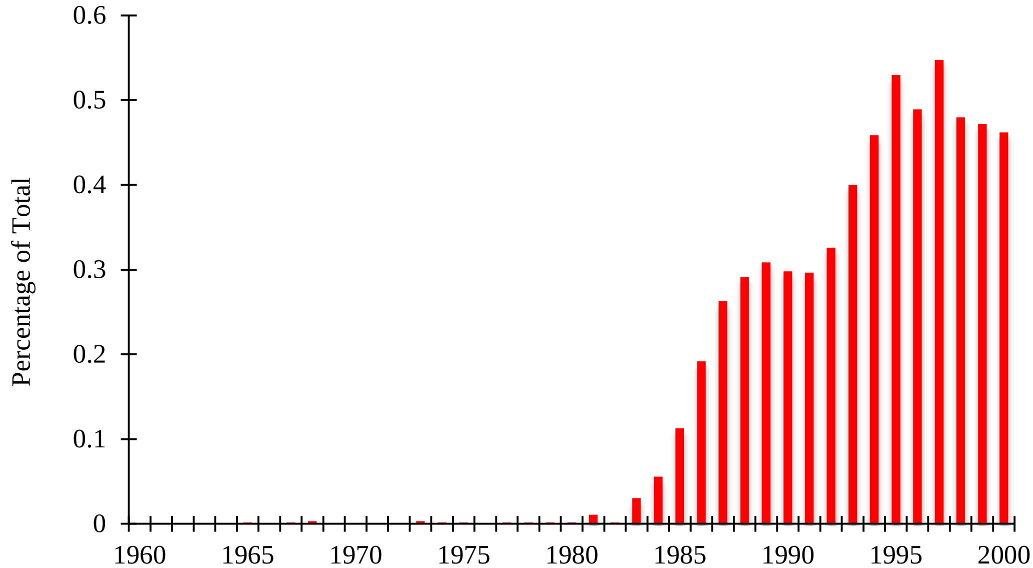

FIGURE 1
USAGE FREQUENCY OF ‘SHAREHOLDER VALUE’ IN *PROQUEST* HISTORCIAL ANNUAL REPORTS DATABASE (1960-2000)

Source: *ProQuest* Historical Annual Reports database.

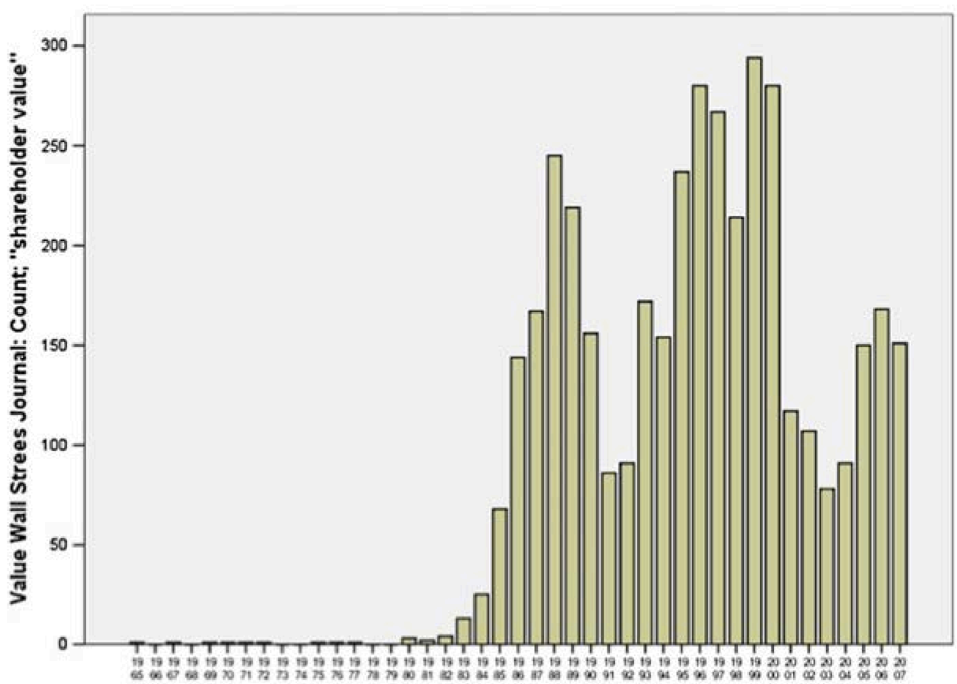

FIGURE 2
USAGE FREQUENCY OF ‘SHAREHOLDER VALUE’ IN *THE WALL STREET JOURNAL* (1965-2007)

Source: Heilbron et al. (2014, p. 8).

two waves. Early users adopted the term in the early 1980s, but extensive use of the term did not occur until the mid-1990s.

Early incidental uses of 'shareholder value'

The first use of the term 'shareholder value' in a corporate annual report in the *ProQuest* database was in the 1965 report of Ling-Temco-Vought (LTV), a large conglomerate corporation.[53] In this report, the corporation claims to arrange their assets and resources so as to "realize as much shareholder value possible."[54] Since this was LTV's—and perhaps any corporation's—first use of the term, the management thoroughly explains their use of the term:

> Our immediate and ultimate objectives are the same: to increase shareholder values for the owners of the company. "Values," as a term, has many different applications. For the management of LTV, it has one overriding meaning - shareholder values. The shareholder owns the assets we manage; through his elected Board of Directors he approves or qualifies corporate policy. As owner, he accepts a share in the ultimate risk of proper asset utilization as well as a share in after-tax earnings and the growth of corporate financial strength. "Values" for him exist at two levels: (1) net worth or book value, and (2) market value, as established by the interaction of his fellow shareholders and the financial community in appraising the earning power of his investment. The primary responsibility of the corporate management of LTV is to build these "values" for the shareholder, realizing that in so doing we must do an outstanding job operating the company and of meeting or exceeding our commitments to customers, employees, and community alike.[55]

The level of detail dedicated to explaining the shareholder value concept ostensibly suggests the use of the term was a premeditated corporate strategy. However, because the next use of 'shareholder value' in a LTV annual report does not occur until 1995, this is improbable. Instead, the management likely intended to emphasise their commitment to shareholders' interests, and in this instance the use of the term 'shareholder value' is but a coincidence.

There were two other incidental uses of the term 'shareholder value' in the late 1960s. In their 1967 annual report, the management of American Standard, Inc., described their "objective of consistently increasingly shareholder value" but they failed to explain what 'shareholder value' is, nor did they explain how or why they intend to increase it.[56] In 1968 the management of General Mills, Inc. wrote that it is "through consistent growth in earnings that shareholder value is created."[57] Although

[53] In 1965 LTV was the 168th most valuable industrial firm in terms of revenues, according to *Fortune* Magazine's annual list. Its highest ranking was in 1970, when it was ranked 14. By 2002 it was no longer on *Fortune's* list of the 500 most valuable firms.

[54] Ling-Temco-Vought 1965 Annual Report (p. 6)

[55] Ibid.

[56] American Standard Annual Report (1967 p 4)

[57] General Mills (1968 p. 2)

this use indicates an association between shareholder value and increased earnings per share, it offers no insight to how those earnings were to be achieved.

Although LTV, American Standard, and General Mills were among the first to use the term ‘shareholder value’ in an annual report, none of them reprised their use of the term in future reports for over a decade. Thus although these corporations may indeed have sought to promote shareholders’ interests over this time period, their use of the term ‘shareholder value’ was not part of a premeditated mantra. It is thus not surprising that there is little explanation of specific steps the corporation intended to take for the sake of promoting shareholder value.

Early intentional uses of ’shareholder value’

The first reports in the *ProQuest* database to use the term ‘shareholder value’ repeatedly and intentionally belong to Bendix, a large engineering corporation, which used the term in their 1973, 1974, 1977, 1980, and 1981 annual reports.[58] In 1973 Bendix claimed to “employ our human, technological, and financial resources in the manner best calculated to bring about a steady increase in shareholder value.”[59] Not unlike the LTV, American Standard, and General Mills uses of the term in the 1960s, this as well as the 1974 use were arbitrary and appeared without an accompanying explanation. In the 1975 report, though, Bendix Chairman, President, and CEO W. M. Blumenthal explains the concept of ‘shareholder value.’ After declaring “healthy progress” in the areas Bendix uses “to gauge shareholder value and earnings capacity” Blumenthal goes on to describe changes in each of “earnings before extraordinary items”, “revenue increase,” “pretax margins”, “shareholders’ equity”, “return on equity”, “new plant, equipment, and technology”, and the “quarterly Common Stock dividend”.[60] Heilbron et al. also recognise Blumenthal as an early user of shareholder value rhetoric. In a 1975 advertisement for Bendix in *The Wall Street Journal* Blumenthal wrote that the firm’s growth “has been directed not primarily to volume, but more specifically to what we call shareholder value.”[61] It appears that Blumenthal was one of the earliest—and perhaps the first—proponent of ‘shareholder value’ as an explicitly defined corporate objective.

These early uses of ‘shareholder value’ in Bendix annual reports described to position the corporation for both present and future earnings increases. This context of ‘shareholder value’ is in contrast to the literature’s conventional understanding that the term was used to describe short-term dividend increases and capital gains for shareholders at the expense of future growth prospects and other stakeholders’ interests.[62] Heilbron et al. incorrectly paraphrase Blumenthal’s beliefs to be “creating shareholder value is more important than the company’s growth.”[63] Heilbron et al.’s

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[58] Throughout the 1970s Bendix was ranked between 61 and 71 on *Fortune* Magazine’s list of the most valuable industrial firms by revenues. (*FORTUNE* 500 Archive).

[59] Bendix 1973 Annual Report (p. 2)

[60] Bendix 1975 Annual Report (p. 2.

[61] Heilbron et al. (2014, p. 9 citing *The Wall Street Journal*, 22 May 1975)

[62] See, for example, Lazonick and O’Sullivan (2000); Lazonick (2000; 2010a; 2010b; 2014); Chassagnon and Hollandts (2014); Pearlstein (2014)

[63] Heilbron et al. (2014, p. 9)

data offer inadequate insight to encapsulate Blumenthal's views. More in-depth analysis of Blumenthal's writings in his letters to shareholders shows that such a dichotomy between shareholder welfare and corporate and societal welfare did not exist. Blumenthal also recognises in a 1976 opinion piece in *Dividend* that a corporation can be "motivated by profit consideration and yet responsive to society's larger needs and changes."[64]

The extent to which Blumenthal and his use of 'shareholder value' influenced other corporate managers is unknown. What is clear, though, is that from his very early use of the term there is harmony between increasing the financial value of the shareholders' investments and maintaining commitment to other stakeholders. This definition of the term is conspicuously absent in contemporary literature.

The second corporation in the *ProQuest* database to use the term 'shareholder value' repeatedly and intentionally was the Boise Cascade Corporation, a large pulp and paper corporation.[65] Boise Cascade management used the term 'shareholder value' in their 1973, 1978, and 1979 annual reports. In their 1973 report, President and CEO John Ferry and Chairman Stephen Moser declared the corporation's "goal of increasing shareholder value" and went on to explain "the elements of achieving that goal."[66] These elements included efficient operation, a flexible financial structure, compensating management relative to achieved return on equity, and "increasing productivity" by investing in the skills, knowledge, and working environment of employees.[67] In the financial discussion section of their 1978 annual report Boise Cascade managers wrote, "improving return on equity is a key component for achieving our corporate goal of optimising shareholder value."[68] Earlier in this same report, Fery and COO Jon Miller express in their letter to shareholders their confidence that "the company will continue to grow become more profitable and of even greater value to its shareholders and society" (sic).[69] Miller wrote the letter to shareholder in the 1979 report and it ends with almost verbatim text.[70]

These early but intentional uses of shareholder value are used in the context of overall stability and growth of the corporation. There is no indication that the promotion of shareholder value was to come at the expense of the interests of other stakeholders.

The proliferation of 'shareholder value' in annual reports

Dart and Kraft, Inc. and R.J. Reynolds Industries, Inc. were the first two corporations in the *ProQuest* database to repeatedly and consistently use shareholder value rhetoric in annual reports in the 1980s. By 1983 such a large number of corporations were using the term that it is beyond the scope of this study to analyse

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[64] Blumenthal (1976, p. 4-9)

[65] Throughout the decade 1970-1979 the Boise Cascade Corporation was ranked between 55 and 143 on *Fortune* Magazine's list of the most valuable industrial firms in terms of revenues. (*FORTUNE* 500 Archive)

[66] Bosie Cascade Corporation 1973 Annual Report (p. 4)

[67] Ibid.

[68] Boise Cascade Corporation 1978 Annual Report (p. 33)

[69] Ibid. (p. 4-5)

[70] Boise Cascade Corporation 1979 Annual Report (p. 5)

in-depth the use of the term after this year. Instead, the following section offers a thorough analysis of the way three case study corporations used the term.

Dart and Kraft, Inc., a valuable food and consumer products conglomerate, used the term ‘shareholder value’ in each annual report from 1982-1984 in the context of overall financial performance and growth, similar to uses of the term already described. In 1982 Dart and Kraft President Warren Batts and CEO John Richman declared the firm would “enhance shareholder value by attaining a maximum return on corporate assets coupled with retained earnings growth”.[71] Batts and Richman declare this is achievable by having a “relative comparative advantage,” “increasing operating effectiveness,” and attaining “unit volume gains and market share growth.”[72] Although this use of ‘shareholder value’ is in the context of short term financial statistics, the 1983 and 1983 reports indicate a perception of ‘shareholder value’ as a metric of long-term success as well. For example, in 1983 Batts and Richman explain the three avenues by which they would achieve their goal of “improving shareholder value”: first, by improving returns; second by “increasing real rate of growth” through acquisitions as well as investment in advertising, research and development, and capital expenditures; and third by “improving the quality and depth of management.”[73] In the 1984 report, Batts and Richman devote an entire section of the letter to shareholders to the explanation of ‘shareholder value’, which in this case they explain more explicitly as improvement in “earnings growth and return on goal capital.”[74] After listing this definition they outline a similar strategy for increasing shareholder value as the one in the 1983 report. In the 1984 report, though, they emphasise their focus on “long-term growth” and commitment to research and development.[75]

Reynolds Industries first used ‘shareholder value’ in their 1981 annual report and then again in 1983 and 1984. In their first use of the term they failed to explain the meaning of the term, simply claiming it would arise out of “competitive excellence.”[76] The definition of the term in 1983, though, is indeed decipherable. CEO J. Tylee Wilson writes, “RJR’s progress in 1983 demonstrates our commitment to capitalize on our primary strengths to achieve substantially increased shareholder value.”[77] He goes on explain those progressions similarly to the way Blumenthal explained shareholder value in the 1975 Bendix report. Wilson boasts of big picture and long-term goals including achieving growth in scope and in international presence.[78] The result of these progressions, he writes, was a “7% increase in the quarterly dividend.”[79]

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[71] Dart and Kraft, Inc. 1982 Annual Report (p 4.)
[72] Ibid.
[73] Dart and Kraft, Inc. 1983 Annual Report (p. 4)
[74] Dart and Kraft, Inc. 1984 Annual Report (p. 6)
[75] Ibid.
[76] Reynolds Industries 1981 Annual Report (p. 4)
[77] Reynolds Industries 1983 Annual Report (p. 6)
[78] Ibid.
[79] Ibid.

Discussion

Use of 'shareholder value' in reports in the *ProQuest* database first occurred in 1965, but the term was likely not used as a premeditated corporate mantra until 1975. It was not until 1983 that more than two corporation used the term in an annual report in the same year. These early uses of the term, when clearly defined, generally described the financial condition of the firm, but more often as an indicator of overall corporate welfare than as a means of accomplishing short-term earnings.

These findings have numerous important conclusions for the understanding of the shareholder value concept in contemporary literature. Regarding the timing of the term's emergence, the finding that shareholder value rhetoric was not used by a large number of corporations until the mid-1980s, and still many more corporations' did not adopt the term until the 1990s, suggests that 'shareholder value' was not a generally accepted management concept by the time early downsize-and-distribute behaviour began. Lazonick, Pearlstein, and others' placement of the emergence of the shareholder value concept before 1983 are thus incorrect. [80] Arguments that use of the term occurred extensively before the 1990s likely overstates how widely the term was used during those years.

Limitations of my analysis include the fact that it only explains the data in the *ProQuest* database. It is possible that there were early uses of 'shareholder value' in annual reports not available in the *ProQuest* database and are thus excluded. However, because the data sample is diverse and large, it is likely that the trend exhibited from these data is indeed representative of general corporate use. Some may argue that the date when a corporation adopted use of the term 'shareholder value' is ancillary because corporations were already engaging in downsize-and-distribute behaviour. Critics of these managers, though, do not just argue that downsize-and-distribute behaviour existed; they argue that it was undertaken as part of new management strategies stemming from the new concept of shareholder value.

CASE STUDIES, ANNUAL REPORT ANALYSIS

In the previous section I determined when 'shareholder value' emerged in annual reports in the *ProQuest* database and in what context the term was used. The objective of the next two sections is to determine if management preferences exhibited a change in preference for shareholders over other stakeholders by changing from a pattern of retain-and-reinvest to one of downsize-and-distribute.

In this section I analyse trends in GE, JNJ, and KO's use of particular phrases in their annual reports; each phrase represents a corporate constituency. I then discuss to what extent these lexical changes may be indicative of a change from a pattern of retain-and-reinvest to one of downsize-and-distribute following the rise of the shareholder value concept.[81] I define retain-and-reinvest as a relatively high focus on long-term corporate vitality and non-shareholding stakeholders' interests, as indicated by use of the terms 'employee,' 'research,' and 'customer.' I define downsize-and-distribute as a relatively high focus on shareholder interests, as

[80] Lazonick (2014; 2010) Lazonick and O'Sullivan (2000); Pearlstein (2014)
[81] Lazonick (2000; 2014)

indicated by use of the terms 'shareholder,' 'shareholder value,' and 'profit.' I analyse these lexical trends before and after the three critical years *DD*, *RP*, and *SH*

Usage of 'shareholder value' in annual reports

The emergence of the term 'shareholder value' occurred dissimilarly in timing and context for each of GE, JNJ, and KO. Of the three corporations, KO was both the first and the most frequent user of the term. KO's usage frequency experienced an upward trend following adoption of the term in 1983. JNJ and GE did not mention the term until 1993 and 1994 respectively, and their usage was limited compared to that of KO. All three corporations employ different definitions for the term and use it in dissimilar contexts.

THE COCA-COLA COMPANY

Two features characterise KO's usage of 'shareholder value' in the 1980s. The first is an unambiguous commitment to increasing shareholder value as the primary objective of management. The second is a consistency in the definition and context of the term.

KO's commitment to increasing shareholder value as a deliberate corporate objective is explicitly stated throughout its annual reports. With the initial mention of 'shareholder value' in 1983 the management stated, "to maximize shareholder value" was "the core of the Company's strategy."[82] In 1984, the commitment was made as obvious as possible when the management wrote on the front cover of the annual report the simple sentence, "To increase shareholder value is the objective driving this enterprise."[83] In this report the management refer to their 1981 corporate resturcturing during which they forthrightly agreed to "set a clear-cut strategy—to increase the value" of shareholders' "investment in the Coca-Cola Company."[84] This stated strategy did not change for the next fifteen years: in every report from 1984-1999, the opening line of the management's discussion of financial reports reads, "Management's primary objective is to maximize shareholder value over time."[85]

KO unambiguously defined 'shareholder value' in their annual reports. From the first use of the term in 1983 until 2000, KO consistently defined an increase in shareholder value as the boosting of earnings per share and return on equity. The intended result was for shareholders to receive "an above average total return on their investment."[86] In 1987 the management devoted multiple pages of the annual report to explaining how KO creates shareholder value. In this description the management emphasised increasing returns on capital expenditures and maximising

[82] The Coca-Cola Company 1983 Annual Report (p. 32)
[83] The Coca-Cola Company 1984 Annual Report (p. 1)
[84] Ibid (p. 4).
[85] There are two exceptions: In 1996 the line read, "We exist for one reason: to maximize share-owner value over time" and in 1997 "to increase share-owner value" was the management's "mission".
[86] The Coca-Cola Company 1983 Annual Report (p. 32)

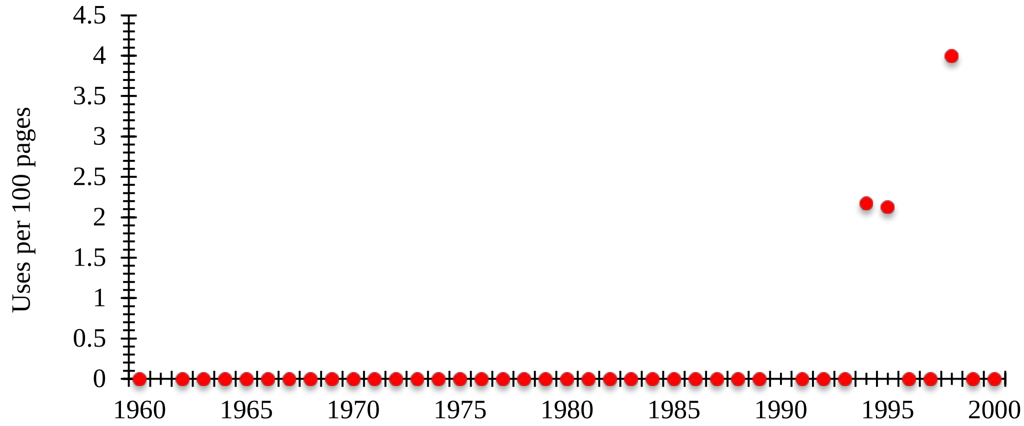

FIGURE 3

USAGE FREQUENCY OF 'SHAREHOLDER VALUE': GE, 1960-2000

Source: GE Annual Reports from ProQuest Historical Annual Reports database

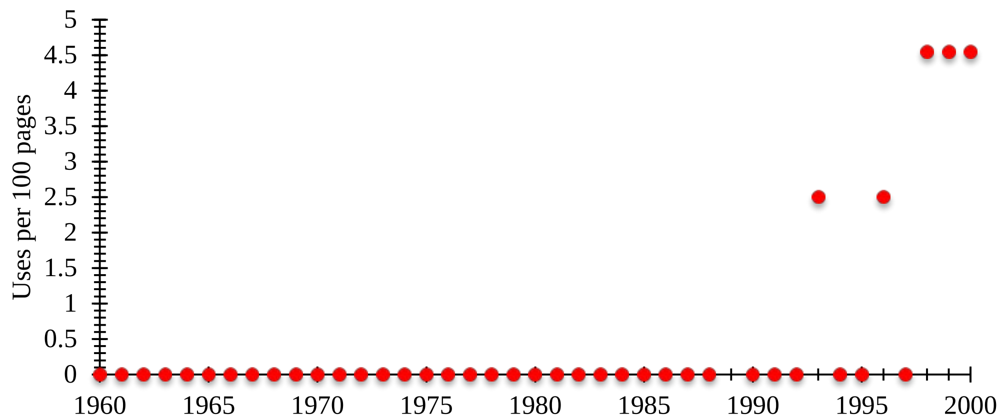

FIGURE 4

USAGE FREQUENCY OF 'SHAREHOLDER VALUE': JNJ, 1960-2000

Source: JNJ Annual Reports from ProQuest Historical Annual Reports database

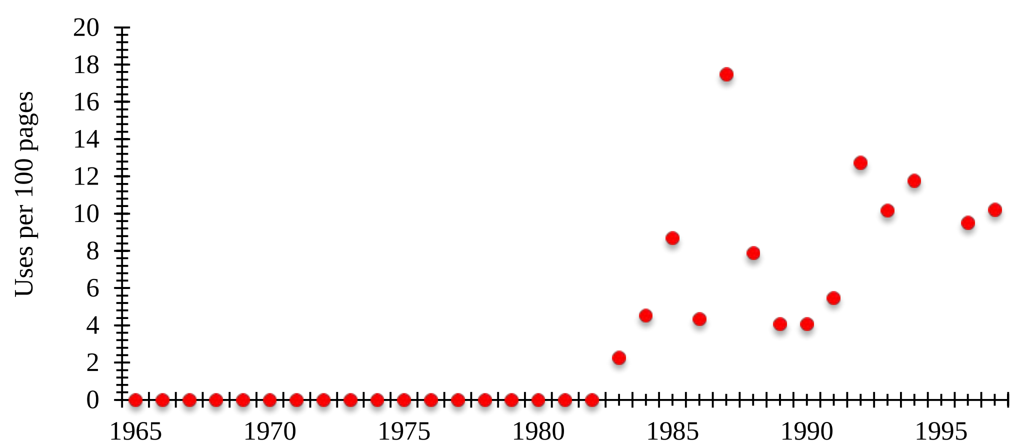

FIGURE 5

USAGE FREQUENCY OF 'SHAREHOLDER VALUE': KO, 1960-2000

Source: KO Annual Reports from ProQuest Historical Annual Reports database cash flows, a strategy that would result in management's ability to pay more dividends and repurchase KO stock.

KO's approach to the shareholder value concept is thus more deliberate than that of Bendix, Dart & Kraft, or R.J. Reynolds Industries. These managers clearly understood and sought to increase their conception of 'shareholder value', but KO goes a step further and makes shareholder value the focal point of management strategy. KO's definition of shareholder value is also more technical, and it excludes some of the non-financial criteria that previous users of the term included.

JOHNSON & JOHNSON

The use of 'shareholder value' in the text of JNJ annual reports is in stark contrast to that of KO. Whereas KO management declared the pursuit of shareholder value was their primary corporate objective, JNJ declared shareholders to be the most unimportant constituency influencing management's decision making. In 1962 JNJ published their "Credo," which stated the order of importance of their various stakeholders. JNJ declared that their most important constituency was their customer and consumer base, followed in order by their employees, management, communities, and finally their shareholders.[87] Although JNJ modified the Credo between 1963-2000, each version listed shareholders' interests last.

It is thus no surprise that 'shareholder value' was not as defining a feature for JNJ annual reports as it was for those of KO. JNJ's isolated first use of the term in 1993 was inexplicit; managers simply anticipated future changes would bring "opportunities to build shareholder value" but, as in Bendix and Dart & Kraft's early uses, they failed to explain further.[88] Although the next use of the term was in 1996 and was slightly clearer, it did not elucidate how JNJ specifically intended to create shareholder value, nor did it define what is shareholder value. CEO Ralph Larsen and Vice Chairman Robert Wilson simply wrote, "shareholder value is created when we can successfully fulfil unmet health care needs, while at the same time improving people's lives."[89] To JNJ, shareholder value is merely an afterthought; it is something obtained indirectly.[90] Although Larsen and Wilson do not commit outright to a shareholder value creating strategy in the way that KO's management did, this sentence indicates that JNJ's bold strategy of customer primacy was not independent of the promotion of shareholders' interests. It is not clear, though, how JNJ intended to promote those interests because by 1996 they still had not offered a clear definition of 'shareholder value.'

One may argue that by the 1990s it was unnecessary for managers to define 'shareholder value' because by then the term was universally understood and established, but this was likely not the case. JNJ's use of 'shareholder value' in 1998 suggests a completely different understanding of the term compared to the norm. Larsen and Wilson boast that in 1998 "total share owner value of Johnson &

[87] Johnson & Johnson 1962 Annual Report (p.3)
[88] Johnson & Johnson 1993 Annual Report (p. 5)
[89] Johnson & Johnson 1996 Annual Report (p. 4)
[90] The 1962 JNJ Credo states that only "when these things have been done…" referring to all other corporate objectives, "the stockholder should receive a fair return."

Johnson's stock" reached an all-time high of "almost $113 billion."[91] In this instance Larsen and Wilson use 'shareholder value' as a substitute term for market capitalisation, the total value of outstanding shares.[92] This definition thus recognises stock price appreciation, but it overlooks dividends entirely.

GENERAL ELECTRIC CORPORATION

GE was the last of the three case study corporations to use 'shareholder value' in an annual report, and their management used the term the most infrequently of the three case studies. GE used "share owner value" just once in both the 1994 and 1995 annual reports and twice in 1998. Although GE commits the least amount of text to the discussion of shareholder value, out of the three case studies their use of the term is the most straightforward. In each of these three reports GE refers to shareholder value only in the context of stock repurchases and dividend payments.[93] In the 1994 report GE states that the decision to repurchase GE shares was made "after evaluating various alternatives to enhance long-term share owner value."[94] The 1995 report says, "$5.9 billion impacted share owner value"; that value was the sum of stock repurchases and dividend payments that year.[95] To GE managers, 'shareholder value' was simply the value of the gains shareholders receive as a result of owning GE stock.

GE management never acknowledged 'shareholder value' as an explicit corporate strategy. Their reports also offer no evidence that a shareholder-stakeholder dichotomy existed. On the contrary, GE commits to "involving everyone."[96]

Usage of 'shareholder' in annual reports

I assume more frequent use of the term 'shareholder' reflects increased preference for shareholders. *F*('shareholder') for the three corporations over time ostensibly appear erratic, but there is in fact an interesting pattern: usage frequency of 'shareholder' was higher for each corporation in every year following the adoption of 'shareholder value' until 2000 compared to before the adoption of the term. Thus the arrival of 'shareholder value' may have been associated with relatively more focus on shareholders in annual reports compared to immediately before.

Each of the three corporations used 'shareholder' at least as frequently in the 1960s and early 1970s as in the 1990s. In these earlier periods, annual reports were shorter and a greater percentage of overall content was dedicated to shareholders. It was in the 1970s that annual reports began to contain more information pertinent to non-shareholding constituencies such as customers. Between 1975-1981 (*T-A*), the audit-adjusted page count value, increased from 15 to 37 for KO and from 26 to 41

[91] Johnson & Johnson 1998 Annual Report (p. 6)
[92] The value of JNJ outstanding shares was $113 billion at the end of 1998.
[93] General Electric Company 1994 Annual Report (p. 42); General Electric Company 1995 Annual Report (p. 43); General Electric Company 1998 Annual Report (p. 3)
[94] General Electric Company 1994 Annual Report (p. 42)
[95] General Electric Company 1995 Annual Report (p. 43)
[96] General Electric Company 1994 Annual Report (p. 3)

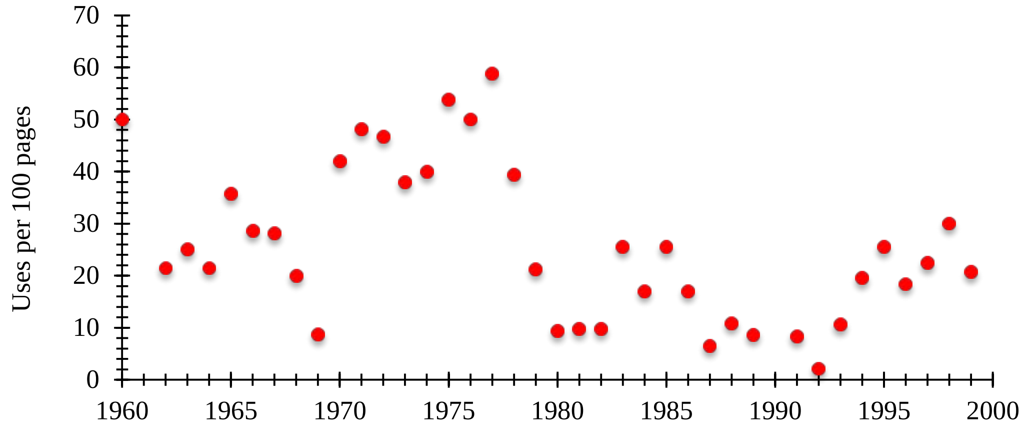

FIGURE 6
USAGE FREQUENCY OF 'SHAREHOLDER': GE, 1960-2000
Source: GE Annual Reports from *ProQuest* Historical Annual Reports database

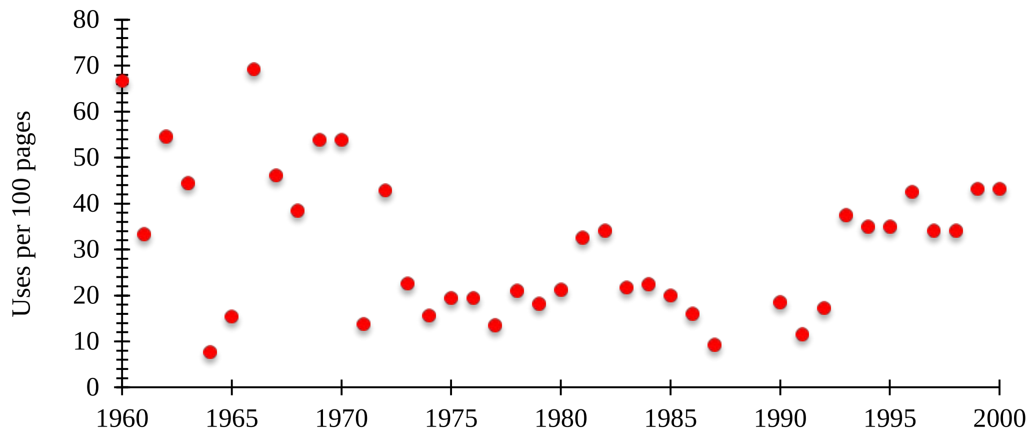

FIGURE 7
USAGE FREQUENCY OF 'SHAREHOLDER': JNJ, 1960-2000
Source: JNJ Annual Reports from *ProQuest* Historical Annual Reports database

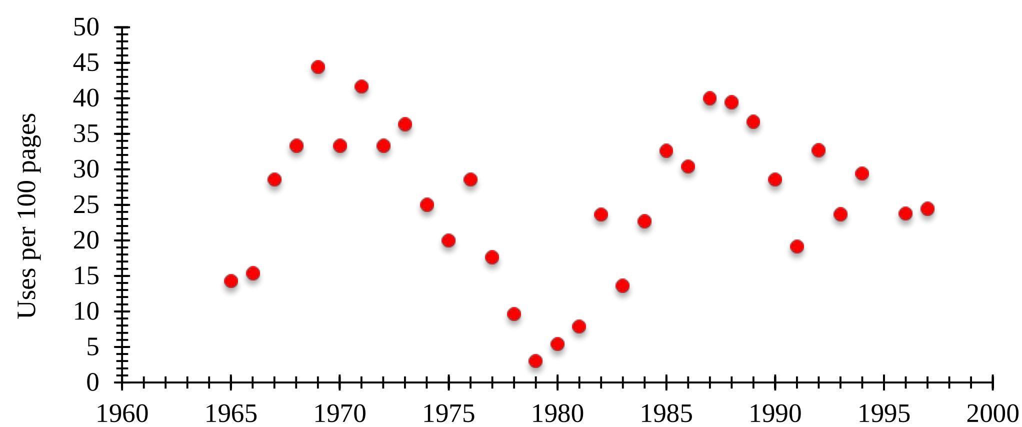

FIGURE 8
USAGE FREQUENCY OF 'SHAREHOLDER': KO, 1960-2000
Source: KO Annual Reports from *ProQuest* Historical Annual Reports database

for GE.[97] The value for JNJ increased earlier, rising from 13 to 36 from 1970-1975. Each period that experienced an increase in *(T-A)* also had a decline in *F('shareholder').*

It is important to note that use of 'shareholder value' was not a prerequisite for expressing a commitment to shareholders' interests in these annual reports. As early as 1963 GE mentioned the goal of achieving "reasonable returns to share owners."[98] Returns to shareholders—that is, dividends and share repurchases—is the exact meaning of shareholder value in GE annual reports in the 1990s. Throughout the 1960s and most of the 1970s, as GE's use of 'share owner' increased in frequency, the presence of similar statements suggest that managers made decisions in the interest of share owners even though GE never once mentioned 'share owner value.'

Usage of 'profit' in annual reports

I assume more frequent use of the term profit is indicative of increased preference for shareholder interests because more profit volume results in greater potential distributions to shareholders.[99]

Although KO's usage frequency for 'profit' does not appear to be correlated over time, GE and JNJ exhibit general upward trends. GE's frequency increased gradually and consistently over time. JNJ used the term infrequently until the late 1970s; after 1980 JNJ usage frequency was higher and more consistent.

JNJ experienced a large increase in *F* for 'profit' beginning in 1977, one year before year *DD;* after this year usage frequency remained high. There are no other noticeable changes in any of the three corporations trends for *F('profit')* relative to years *DD*, *RP*, or *SH*.

Usage of 'employee' in annual reports

I assume more frequent use of the term 'employee' is indicative of increased preference for employee interests. This is a valid assumption because in annual reports the term 'employee' is frequently used when discussing employee salaries, benefit programmes, and training.

GE and JNJ exhibit general downward trends in *F('employee')* from 1960 until approximately 1985. After this point *F('employee')* remains fairly constant for GE and increases slowly for JNJ. KO never used the term 'employee' in an annual report from 1960-1977. Usage frequency remained low after 1977 and there was no discernible trend.

Usage of 'research' in annual reports

I assume more frequent use of the term 'research' is indicative of increased preference for R&D. Annual reports present an opportunity for managers to boast about R&D breakthroughs, and a relative increase in the amount of text dedicated to R&D discussion would suggest more noteworthy R&D accomplishments.

[97] (*T-A*) for JNJ only increased from 36 to 43 in this period.
[98] General Electric Company 1963 Annual Report (p. 10)
[99] Bagwell and Shoven (1989, p. 139)

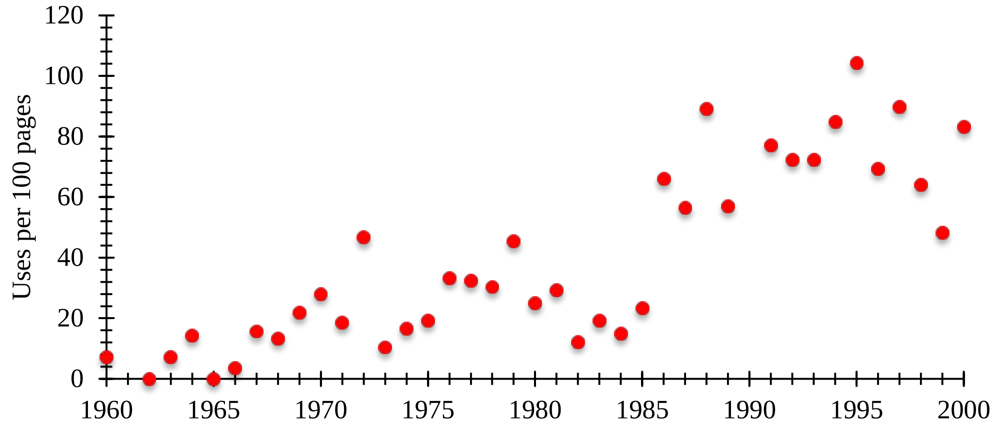

FIGURE 9

USAGE FREQUENCY OF 'PROFIT': GE, 1960-2000

Source: GE Annual Reports from *ProQuest* Historical Annual Reports database

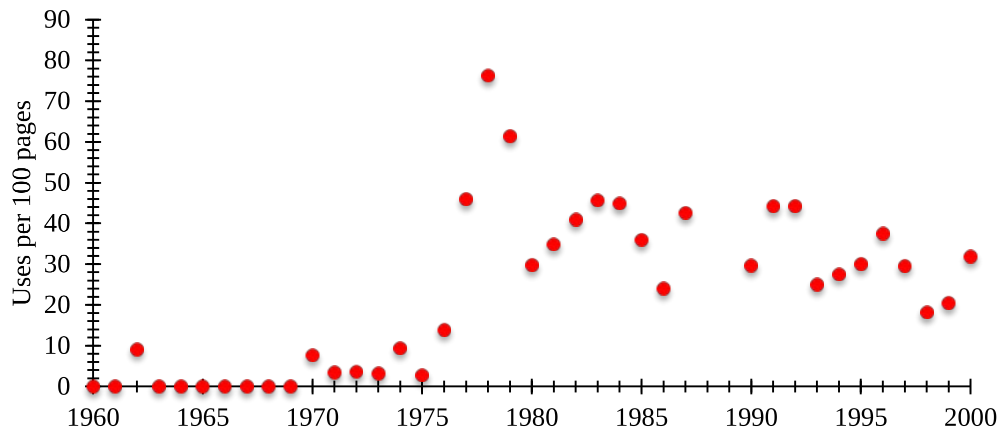

FIGURE 10

USAGE FREQUENCY OF 'PROFIT': JNJ, 1960-2000

Source: JNJ Annual Reports from *ProQuest* Historical Annual Reports database

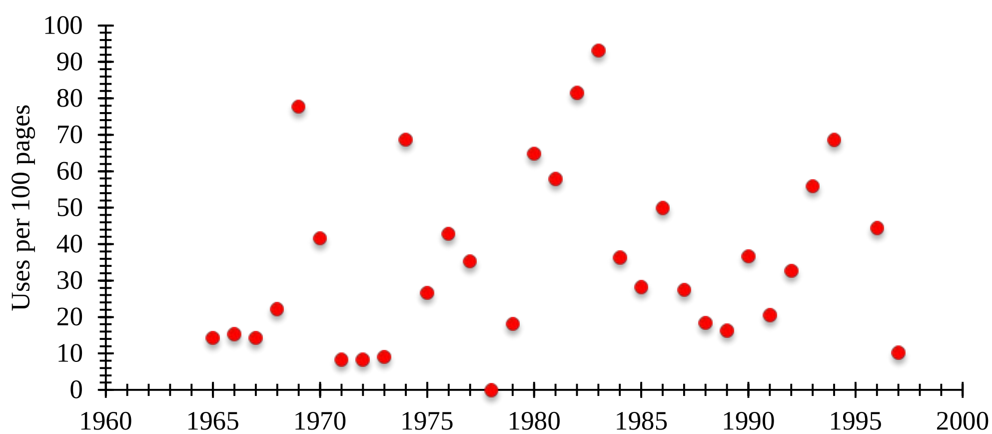

FIGURE 11

USAGE FREQUENCY OF 'PROFIT': KO, 1960-2000

Source: KO Annual Reports from *ProQuest* Historical Annual Reports database

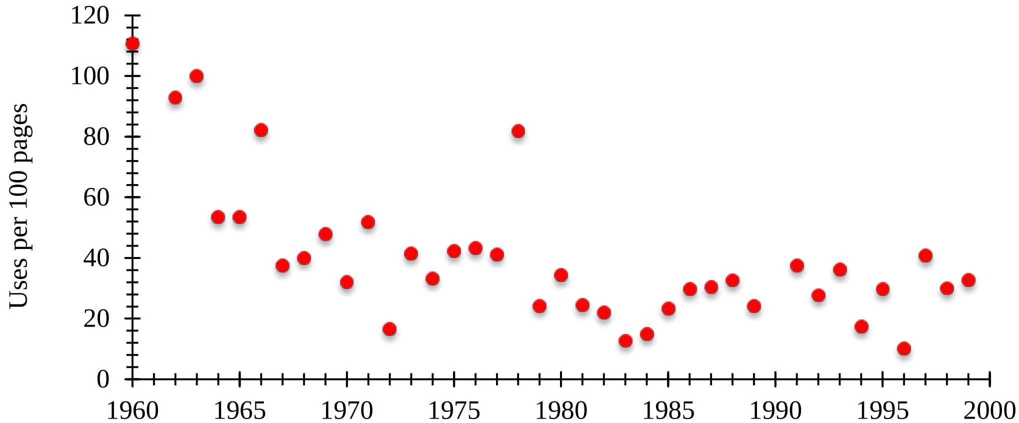

FIGURE 12
USAGE FREQUENCY OF 'EMPLOYEE': GE, 1960-2000
Source: GE Annual Reports from *ProQuest* Historical Annual Reports database

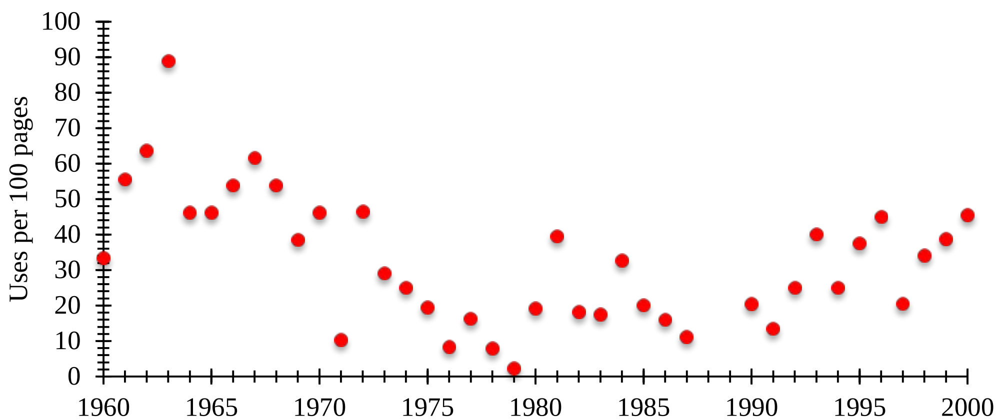

FIGURE 13
USAGE FREQUENCY OF 'EMPLOYEE': JNJ, 1960-2000
Source: JNJ Annual Reports from *ProQuest* Historical Annual Reports database

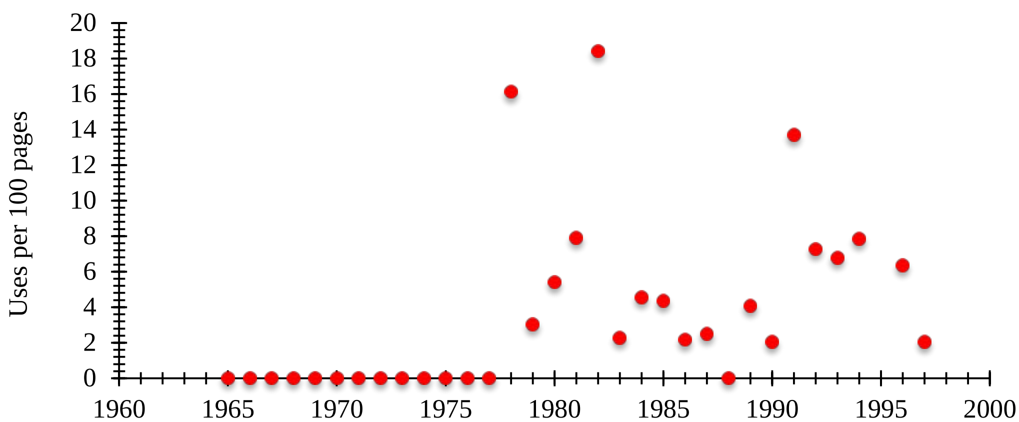

FIGURE 14
USAGE FREQUENCY OF 'EMPLOYEE': KO, 1960-2000
Source: KO Annual Reports from *ProQuest* Historical Annual Reports database

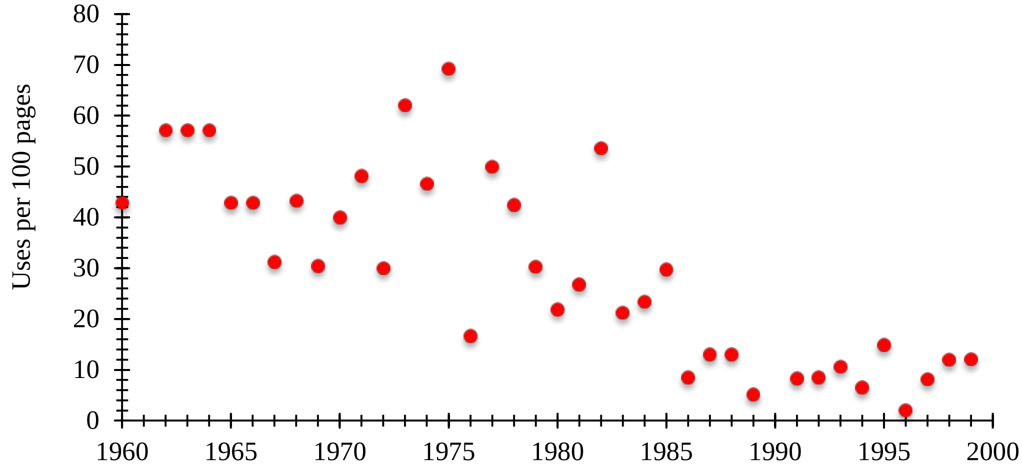

FIGURE 15
USAGE FREQUENCY OF ‘RESEARCH’: GE, 1960-2000
Source: GE Annual Reports from *ProQuest* Historical Annual Reports database

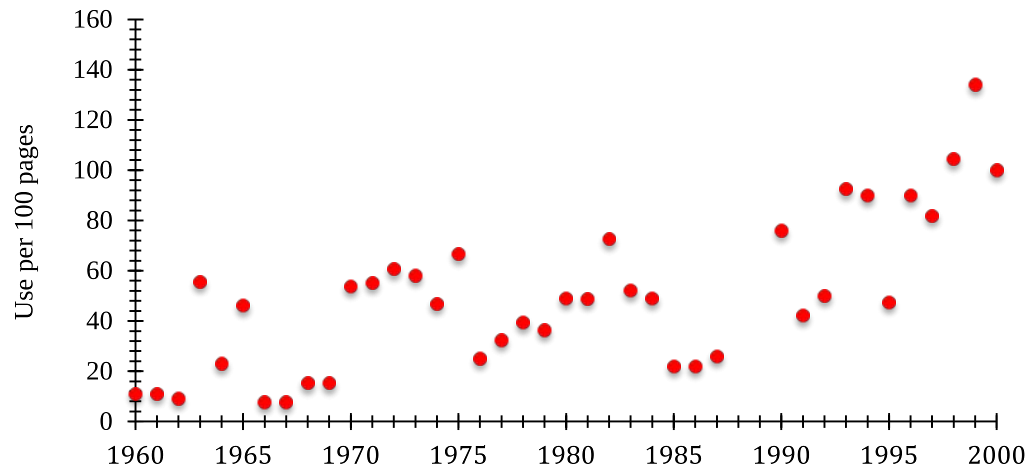

FIGURE 16
USAGE FREQUENCY OF ‘RESEARCH’: JNJ, 1960-2000
Source: JNJ Annual Reports from *ProQuest* Historical Annual Reports database

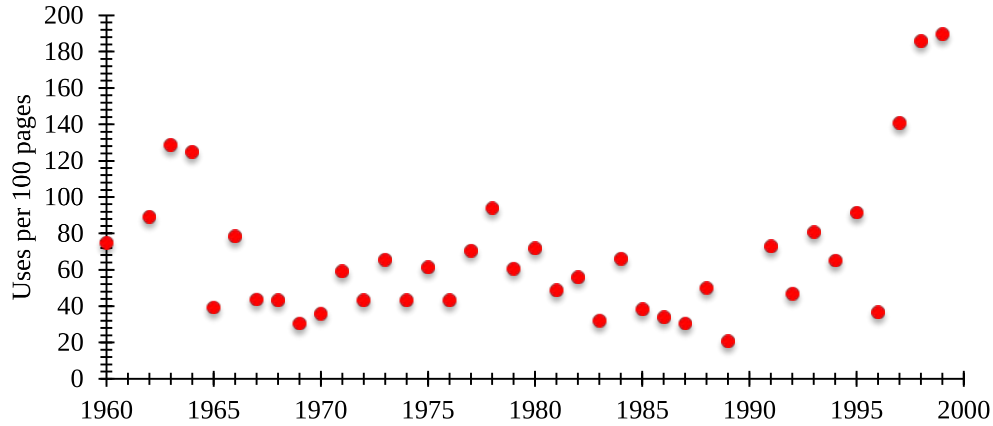

FIGURE 17
USAGE FREQUENCY OF ‘CUSTOMER: GE, 1960-2000
Source: GE Annual Reports from *ProQuest* Historical Annual Reports database

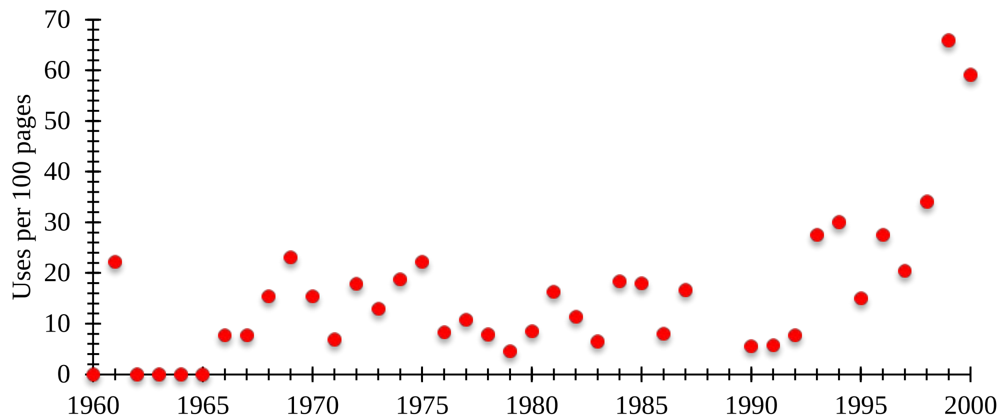

FIGURE 18
USAGE FREQUENCY OF ‘CUSTOMER: JNJ, 1960-2000
Source: JNJ Annual Reports from *ProQuest* Historical Annual Reports database

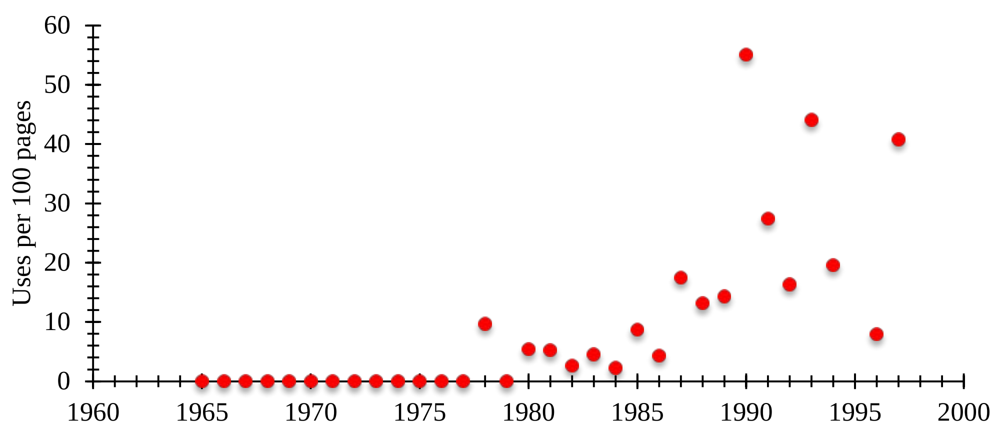

FIGURE 19
USAGE FREQUENCY OF ‘CUSTOMER: KO, 1960-2000
Source: KO Annual Reports from *ProQuest* Historical Annual Reports database

KO is not a research-intensive corporation. Never did their management exceed two uses of the term 'research' in an annual report. For these reasons I exclude KO from this section of analysis.

GE's *F('research')* decreases after 1975, but JNJ's trend generally increases after this date. None of years *DD*, *RP*, or *SH* is a point of noticeable change.

Usage of 'customer' in annual reports

I assume more frequent use of the term 'customer' is indicative of increased preference for customers. There are notable increases in GE and JNJ's usage frequency for 'customer' beginning in approximately 1990; KO's frequency increased slightly earlier in the late 1980s. These increases are some of the clearest and largest among any variable mentioned, largely because before increases, use of the term was minimal.

Discussion

I determined when and in what context GE, JNJ, and KO used 'shareholder value' in annual reports and analysed how managers' treatment of various corporate constituencies in these reports changed from 1960-2000 by analysing changes in usage frequency of key terms. This analysis is useful because it offers insight to the way corporate managers themselves discussed these constituencies over time.

Limitations stem from my assumptions and methods. For example, I assume usage frequency with for a term representing a constituency is correlates with the manager's positive treatment of that constituency's interests. Thus I assume any one use of a key term is tantamount to another, which may not be the case. A manager can convey very strong preferences with a single use of the word. For example, despite the fact that KO uses the term 'shareholder value' very frequently in the late 1980s, after just one use of the term in the sentence, "Management's primary objective is to maximize shareholder value over time"[100] it is clear what are the KO management's views toward the shareholding constituency. Such bold commitments, though, are the exception and not the rule in these reports.

There is little evidence to support the hypothesis that these three corporations directed more attention to shareholders' interests and less to other stakeholders' interests generally over time. Evidence supporting the hypothesis is limited to GE and JNJ's decreasing *F* for 'employee,' GE's decreasing *F* for 'research,' and GE's increasing *F* for 'profit.'

CASE STUDIES: FINANCIAL STATISTICS

In this section I analyse the trends in GE, JNJ, and KO's financial statistics to determine if the allocation of net income changed from a pattern of retain-and-reinvest to one of downsize-and-distribute following the adoption of the term 'shareholder value' in annual reports. I define retain-and-reinvest as having a relatively high value for *REINVEST* accompanied by a relatively low value of *RETURNS;* I define downsize-and-distribute as having relatively high value for

[100] This sentence appeared in several of KO's annual reports from 1984-2000.

RETURNS, accompanied by relatively low value of *REINVEST*. Because KO is not a research-intensive corporation, I exclude *r&d* from KO analysis; thus *REINVEST* for KO simply equals *ppe*. I analyse these financial trends before and after the three critical years *DD*, *RP*, and *SH*.

Observations: RETURNS

Year SH was not a turning point for either GE or JNJ's value for *RETURNS*. For these corporations, *RETURNS* is higher at year *SH* and each year following until 2000 compared to the 41-year mean. This increase for both corporations, though, began prior to year *SH*. After year *SH* there is no discernible trend for GE or JNJ's annual value for *RETURNS*. It is thus not likely that the emergence of 'shareholder value' in GE and JNJ annual reports was associated with an increase in *RETURNS*.

Trends for JNJ and KO have several similar patterns. Their trends for *RETURNS* are broken into three distinct periods. The first is from 1960-1973, when *RETURNS* experienced a general decline, which was approximately twenty percentage points for JNJ and thirty for KO. The second is from 1974 until 1984, the year of both corporations' first repurchase. In this period the trend for *RETURNS* was high, and for JNJ *RETURNS* returned to its full 1960 value. The third period is from 1985-2000, when *RETURNS* for these two corporations becomes erratic following year *RP*.[101]

Observations: REINVEST

REINVEST is upward sloping at year *DD* and remains so for at least five years following for each of the three corporations. This suggests these three corporations are not representative of the downsize-and-distribute narrative at year *DD*.

REINVEST trends for JNJ and KO have similar patterns as well. The maximum value for *REINVEST* for JNJ was in 1982; KO's was only three years later. Before reaching these peaks, both trends were generally increasing, and after the peaks the trends decline. That the trends for *REINVEST* consistently decreased following year *RP* for JNJ and at years *RP* and *SH* for KO suggests that these two corporations may have followed a pattern of downsize-and-distribute following their first share repurchase.[102]

GE, on the other hand, actually increased its *REINVEST* value consistently from 1960-2000, suggesting that GE may never actually adopted a downsize-and-distribute strategy according to my definition.

Discussion

I previously established that KO deliberately sought to maximise shareholder value whilst JNJ did not. It is thus surprising to find that these two corporations with diametrically opposed views of shareholder strategy had such similar patterns in their allocation of resources for both *RETURNS* and *REINVEST*. Of the three, JNJ over

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[101] I define a trend as relatively more erratic if there is an increase of its standard deviation relative to its mean.

[102] Or in the case of KO, the first use of 'shareholder value' and the first share repurchase.

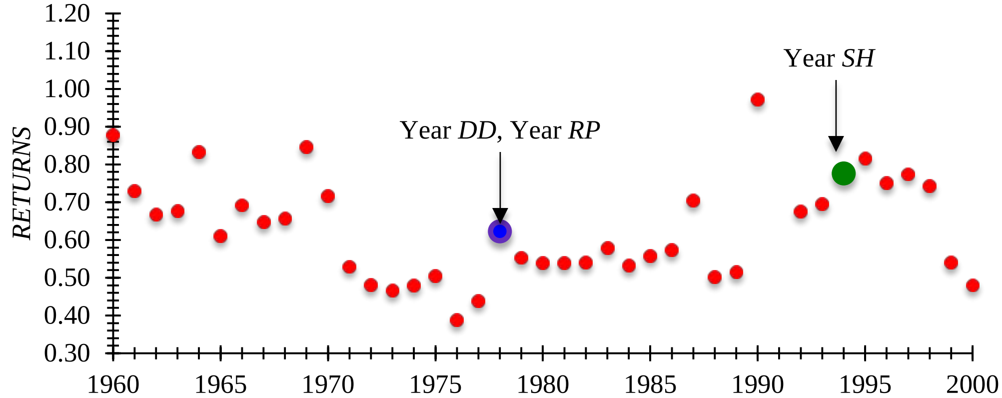

FIGURE 20
GE *RETURNS* (DIVIDENDS AND REPURCHASES), 1960-2000
Source: Compustat database, variables DVT and PRSKTC

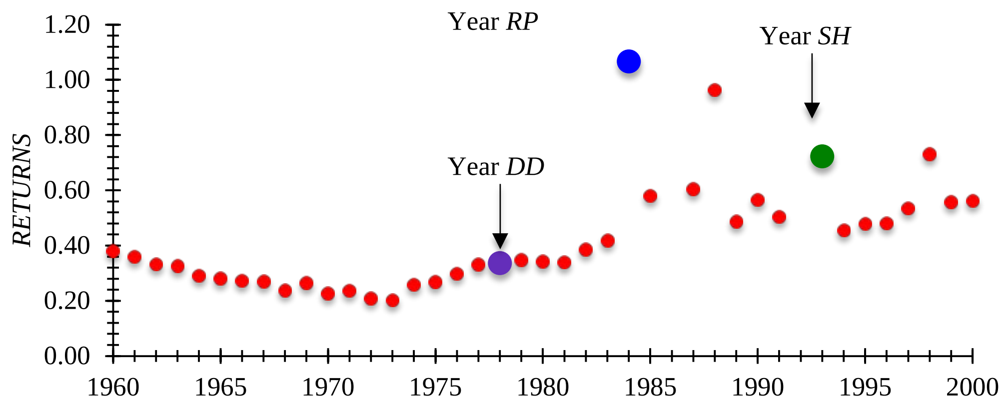

FIGURE 21
JNJ *RETURNS* (DIVIDENDS AND REPURCHASES), 1960-2000
Source: Compustate database, variables DVT and PRSKTC

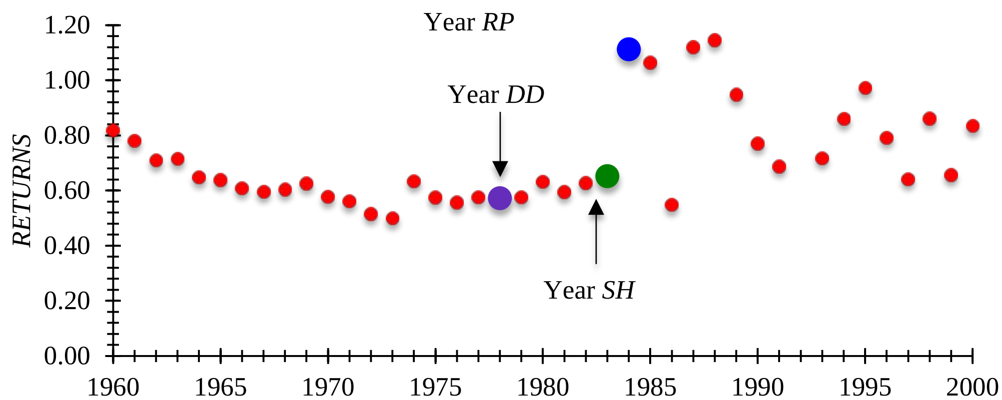

FIGURE 22
KO *RETURNS* (DIVIDENDS AND REPURCHASES), 1960-2000
Source: Compustate database, variables DVT and PRSKTC

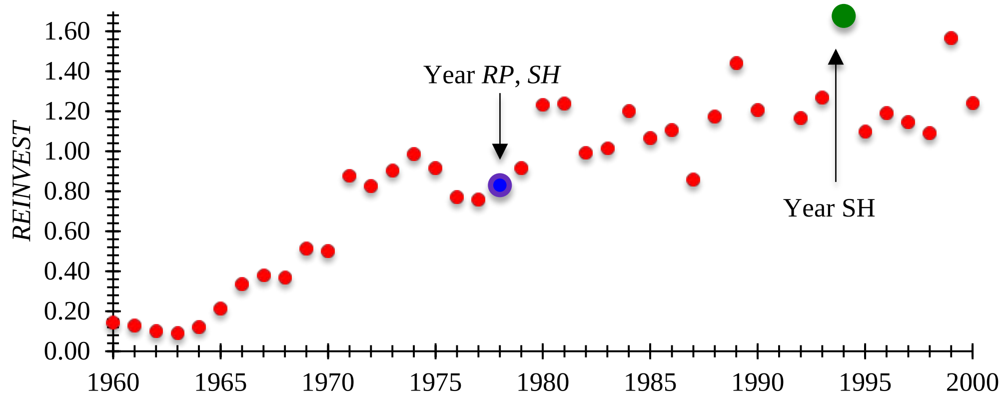

FIGURE 23
GE *REINVEST* (R&D AND PPE), 1960-2000
Source: R&D data from GE annual reports; PPE data from Compustat database, variable CAPX

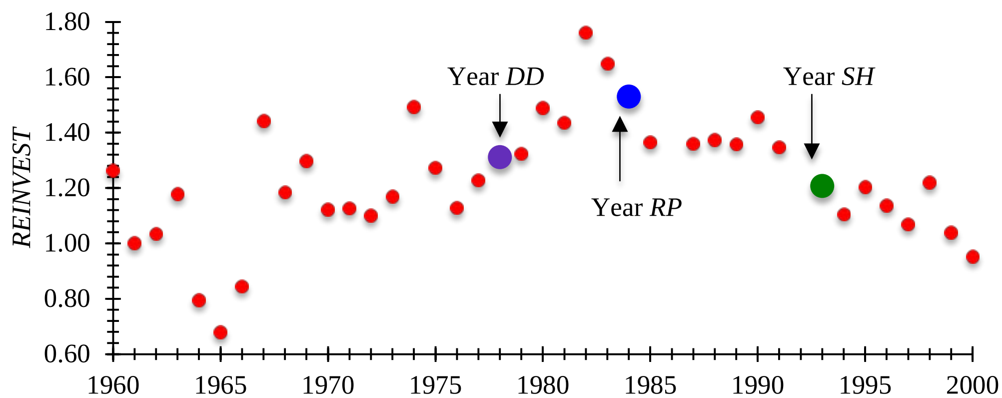

FIGURE 24
JNJ *REINVEST* (R&D AND PPE), 1960-2000
Source: R&D data from JNJ annual reports; PPE data from Compustat database, variable CAPX

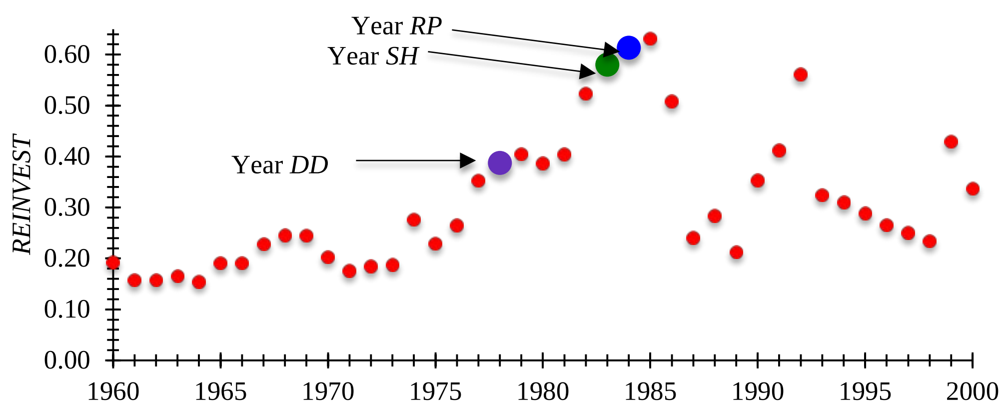

FIGURE 25
KO PPE, 1960-2000
Note: KO R&D data are unavailable in annual reports and Compustat database
Source: PPE data from Compustat database, variable CAPX

time best represents the downsize-and-distribute theme because of its obvious decrease in *REINVEST* and increase in *RETURNS*.

Although this general trend for GE and JNJ indeed represents Lazonick's narrative of downsize-and-distribute, it is unlikely that changes in behaviour were associated with the shareholder value concept. The year *SH* is almost entirely irrelevant as a turning point either for the *RETURNS* or *REINVEST* trend.

In fact, the only instance in which year SH is relevant for any variable is for the GE's *RETURNS* trend: from 1994-2000 GE's *RETURNS* actually decreased by thirty percentage points, in other words the exact opposite behaviour compared to that described in the downsize-and-distribute narrative.[103]

This analysis is unable to support the hypothesis that GE, JNJ, or KO adopted downsize-and-distribute behaviour following adoption of 'shareholder value' in their annual reports.

CONCLUSION

Previous studies documenting the rise of 'shareholder value' have demonstrated two independent points about corporate activity from 1960-2000: (1) corporate pursuit of 'shareholder value' arose as a new management strategy; (2) corporate allocation of income increasingly favoured shareholders, sometimes at the expense of other stakeholders. This study, while offering evidence suggesting both these points are valid, applies qualitative microeconomic evidence to determine if a relationship exists between points (1) and (2) as some shareholder value narratives suggest.

In the first part of this study I investigated when 'shareholder value' emerged in managerial lexicons. I found that managers' frequent use of 'shareholder value' began in my sample of annual reports in approximately 1983. The percentage of corporations using the term increased until approximately 1995, when usage of the term in annual reports reached its pre-2000 peak. This suggests that although the term 'shareholder value' did emerge in the 1980s, it was not until the 1990s that use of term became truly widespread.

This finding casts serious doubts on narratives connecting macroeconomic trends of the 1970s and 1980s to the rise of 'shareholder value'. Several central components of Lazonick's narrative in particular need to be addressed or refined. He argues that increased income inequality, higher executive compensation, and higher levels of disgorgement of corporate cash occurred as a result of the rise of 'shareholder value.'[104] But each of these trends predates the rise of the term 'shareholder value'. For income inequality, the top decile and percentile income shares in the United States had already begun to rise before 1983[105]; they had risen precipitously by 1988, when I argue 'shareholder value' was still in its infancy.[106] Executive pay began to

[103] 1983-1984 were important years for the trends of KO, but it is impossible to separate from *SH* from *RP*.

[104] Lazonick and O'Sullivan (2000; Lazonick 2014)

[105] See, for example, Piketty and Saez (2001, Figures 19 and 20, p. 80-81)

[106] Ibid.

increase in approximately 1970, well before the emergence of ‘shareholder value’.[107] Cash disgorgement as increases in dividends and stock repurchases as a share of net income for U.S. corporations was already elevated in 1980 and rose quickly during the years when the earliest users of ‘shareholder value’ adopted the term.[108]

The second part of this study investigated if ‘shareholder value’ influenced corporate strategy and governance. My case study analyses of The Coca-Cola Company, General Electric Company, and Johnson & Johnson demonstrates that adoption of shareholder value rhetoric had little or no impact on the way these corporations addressed various corporate constituencies in their annual reports, nor did it influence their preference for reinvesting net income in the corporation versus disgorging it to shareholders through dividends and repurchases.

Of these three corporations, the one that most represented downsize-and-distribute behaviour over the period was Johnson & Johnson, which rarely used the term ‘shareholder value’ and deliberately declared shareholder interests below all others. This suggests that, at least for Johnson & Johnson, behaviour described ex post as shareholder value maximisation did not occur out of a deliberate commitment to shareholder interests. More microeconomic analysis of management decisions is needed to obtain a more complete understanding of how ‘shareholder value’ influenced corporate managers’ decisions.

Some may ask why it matters to distinguish shareholder value maximising behaviour from shareholder value maximisng rhetoric. Absent use of the term ‘shareholder value’, behaviour described ex post as pursuing shareholder value may actually have been unintentional. Without evidence of management’s adoption of the term ‘shareholder value’, it is difficult to reasonably assert that the concept played a part in corporate strategy and decision-making in this period. As a result, by overemphasising the role of ‘shareholder value’ scholars likely underemphasise other factors that contributed to these macroeconomic trends.

Just as Monsieur Jourdain was flabbergasted upon discovering that for forty years he had been speaking prose, corporate managers not using of the term in the 1980s and 1990s would have been shocked to read these recent narratives and learn that for years they been pursuing ‘shareholder value.’[109]

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[107] Ibid. (Figure 18, p. 89)
[108] Weston and Siu (2002, p. 43)
[109] Monsieur Jourdain is a character in Molière’s play *Le Bourgeois gentilhomme.*

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