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Manufacturing shareholder value: The role of accounting in organizational transformation ☆

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Abstract

This paper explores the role of accounting calculations in constructing shareholder value within the context of organizational transformation in work organization. Using an intensive longitudinal case study (*Conglom*, a pseudonym), the paper relates innovation and experimentation in new forms of work organization to a drive for shareholder value creation. The priority given to shareholder value creation was articulated through a proliferation of accounting metrics and calculations that intermediated between the strategic preoccupation with securing financial profitability, as demonstrated by the share price, and the operational challenge of squeezing costs and improving margins to boost short-term performance through outsourcing, programme management and divestment. We interpret the discourse of shareholder value creation and the development of related accounting metrics as a hegemonic move which is central to the reassertion of capital – a development that, we contend, is symptomatic of a shift towards a more 'despotic' mode of capitalist reproduction [Burawoy, M., (1985). *The politics of production*. London: Verso], where the whip of the market, allied to notions of possessive individualism, free choice and self-determination, progressively replaces the velvet glove of the corporatist state.
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Our new team conducted the processes with rigour and intensity. By the time I retired – we had tripled our operating margins to almost 15%, raised our return on equity from just over 10% to 28%, and delivered an almost ninefold return for shareholders. (CEO, *Conglom*, a pseudonym for a large multinational USA-based, diversified, 'high-tech' company, co-authored book, details withheld to preserve anonymity)

☆ Earlier drafts of this paper have been presented at the *Accounting, Organizations & Society* Conference on "Accounting, Organizational Transformation and New Organizational Forms", University of Southern California, Los Angeles, 4–6 November 1999, Warwick University, January 2001, Keele University, March 2001, the European Accounting Association Congress, Copenhagen, April 2002, and Caledonia University, Glasgow, May 2002.

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> Irrespective of state interventions there are signs that in all advanced capitalist societies hegemonic regimes are developing a despotic face. (Burawoy, 1985, p. 152)

Two ideas – 'shareholder value' and 'restructuring' – have been at the centre of interest in securing and examining corporate change during the past two decades. Prior to the dot.com bubble, accounting-related scandals[1] and the crash of technology shares, there was limited questioning of the virtue of shareholder value creation. Following these events, the pursuit of shareholder value creation has become the subject of more sustained critical scrutiny – for example, by those who associate it with a broader strategy to 'reorganize and remove unionized labor forces' (Fligstein & Shin, 2005, p. 39). However, with a few exceptions (e.g. Gleadle & Cornelius, 2004), a critical examination of shareholder value creation is largely absent from the literatures on the (re)structuring of work and use of accounting measures. This neglect is particularly perplexing given that shareholder value creation is, at least in part, directed to and derived from extracting increased surplus from the rationalization of existing operations or acquisitions.

New forms of work organization are characterized as flexible, lean, and innovation-mediated. In the lean manufacturing literature, for example, such features are identified as key to the 'adding' of 'value' (Womack, Jones, & Roos, 1990). Whether by default or by design (i.e. to avoid directly provoking labour), however, the adding of value is framed in terms of benefits to customers and also to employees who, it is anticipated, have more secure jobs in addition to becoming more empowered through teamwork. Similarly, Cooke and Morgan (1998) point to the emergence of processes of 'semi-permanent experimentation' to achieve closer and more durable integration of all aspects of manufacturing – supply chain, product design, new forms of corporate governance – but they do not consider the use and effects of the metrics that purport to create value for shareholders. Their analysis is restricted to how new employee relations in a 'learning by doing' environment foster knowledge sharing, problem solving, self-management and co-operation within and between networks of cross-functional work teams. In short, the imperative to restructure work organization is decoupled from the pursuit of shareholder value creation.

The focus of mainstream accounting literature is confined to investigations of how specific accounting techniques, such as Economic Value Added and incentive schemes (e.g. share options), motivate managers to take decisions aimed at creating value for shareholders (Bromwich & Walker, 1998; O'Hanlon & Peasnell, 1998; Stark & Thomas, 1998).[2] How the pursuit of shareholder value is articulated through accounting measures and restructuring is rarely examined. The limited nature of the connections made between shareholder value creation, the use of accounting measures and restructuring efforts is apparent even in studies where, ostensibly, accounting is a focus of attention. Barsky, Hussein, and Jablonsky (1999) link the pursuit of shareholder value to downsizing but their focus is on analyzing published financial results rather than examining the articulation and use of accounting measures in the quest of shareholder value creation. In Miller and O'Leary's (1993, 1994, 1998) study of *Caterpillar*, cursory attention[3]

[1] This paper was initially drafted before the failures of Enron and WorldCom. Since the argument of the paper intersects with the incentives and pressures on executives to boost company share prices, a brief comment is in order. Companies in which there is limited scope for raising share prices by introducing leaner forms of production into existing operations will seek to create value in other ways – notably by engaging in aggressive and fraudulent accounting practices sanctioned by auditors who are themselves under pressure to secure and retain major international clients. The intensity of this pressure on Andersons was an open secret in the industry in the period prior to the scandals.

[2] Over the last few decades, senior executives in many companies have developed a strong vested interest in stock market performance. A significant part of their remuneration packages has taken the form of stock options in the hope of aligning their actions with the interests of shareholders (Gomez-Mejia, 1994).

[3] Miller and O'Leary (1994, p. 20) simply note that the initiative they describe was 'an essential response to a disturbing financial trend. Between 1982 and 1985, losses totalling almost $1 billion had been reported. Six plants had been closed and employment cut severely by 44% among hourly paid workers and 26% among salaried staffs. In contrast to these retrenchment measures, the Plant with a Future program was presented as a recommitment to North American manufacture through structural changes in Caterpillar's regimes of production'.

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