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Financialisation: Constructing shareholder value . . . for some

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Abstract

Drawing from the theorising of Froud et al. [Froud J, Johal S, Papazian V, Williams K. The temptation of Houston: a case study of financialisation. Critical Perspectives on Accounting 2004;15(6–7):885–909] and Kripner [Krippner G. The financialisation of the American economy. Socio-Economic Review 2005;3:173–208] on financialisation, we explore the activities of New Zealand's largest listed company Telecom (NZ) Ltd. The success narrative produced by Telecom since its privatisation and listing in 1991 is centred on shareholder value. However, its financial reporting practices seem increasingly complicated and difficult to comprehend. Telecom's original off-shore investors reaped considerable returns on their investment and, until recently most investors in Telecom were domiciled outside New Zealand. Its production activities have remained concentrated in New Zealand where it holds a monopoly over an essential part of the country's communication infrastructure. This examination of Telecom's activities and financial reporting adds to the debate about financialisation by questioning the effects of the separation of production and accumulation on those where production is located. It also demonstrates the use of accounting and financial reporting practices to support a success narrative which results in resource transfers to those engaged in accumulation activities to the potential detriment of those involved in, or affected by, the company's production activities.

Keywords: Distributive conflict; Financialisation; Intellectual property; Normalisation; Privatisation; Shareholder value; Special purpose entities; Success narrative; Telecommunications

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1. Introduction

The aftermath of Enron's collapse has prompted various interpretations of the collapse, events prior to it, and lessons to be learned. Some regard Enron as an isolated incident reflecting the worst excesses of corporate greed (e.g., as noted by Moriceau, 2005). Those supporting this view might see improved governance arrangements as sufficient to overcome the problem, and the response to Enron in the United States has involved governance changes mainly imposed through the Sarbanes-Oxley Act which focuses on individual wrong-doing (Froud et al., 2000). The Sarbanes-Oxley Act does not address institutional arrangements which some have argued help to shape behaviour, and which are part of a larger dysfunctional financial system (Baker, 2003; Baker and Hayes, 2004; Briloff, 2004; Froud et al., 2000; Reinstein and McMillan, 2004; Zeff, 2003a, b). That larger system continues and, with the increasing economic integration of countries through financial markets, its effects go well beyond the United States.

Froud et al. (2000, p. 109), described one effect of this system some time before the Enron collapse and the scandals that followed.

> Even in blue chip companies, whose managements once built factories and market share, operating management becomes an endless series of cheap financial dodges: this year's target is met by ending the defined benefit pension scheme, which saves labour costs, and next year's dodge is leasing the trucks so that the capital appears on somebody else's balance sheet. This work is punctuated and interrupted by major restructurings and changes of ownership where it is the financial engineering which is crucial . . ..

The parts played in this larger financial system by the accounting profession (Briloff, 2004; Zeff, 2003a, b) and accounting standards (Clarke et al., 2003) have been criticised, both before and after Enron. Froud et al. (2004) noted that Enron's success narrative prior to its collapse involved the use of legitimate accounting devices for "the illegitimate purpose of hiding debt and fabricating earnings" (p. 895). These devices also required the collusion of others, including accounting professionals and financiers, for whom Enron's predicament represented a business opportunity.

Our focus is on the flexibility of financial reporting standards and financial reporting practices for use in the presentation of success narratives. Increasing economic integration and free capital mobility means that major shareholders may be domiciled anywhere in the world. Lazonick and O'Sullivan (2000) suggest that the pressure on companies to report desirable financial measures and distribute cash has the potential to run down both a company and an economy, while Krippner's (2005) analysis suggests the need for closer scrutiny of the economy affected. We extend their analysis to observe that in a small country such as New Zealand, when the company is comparatively large, the dysfunctional effects of this system potentially endanger a major part of the country's infrastructure as well as its economy. Our article focuses on New Zealand's largest listed company, Telecom New Zealand Ltd.

Froud et al. (2004) refer to this larger system as one of financialisation because financial markets have become increasingly powerful. Massive increases in institutionalised savings