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Narratives and the financialised firm

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Abstract

This article explores the significance of narratives about large corporations in financialised capitalism, focusing on how firms have recognised the importance of narrative in their relations with providers of capital and financial intermediaries. The article develops the analysis of *Financialization and Strategy: Narrative and Numbers* (Froud et al. 2006) in several ways. First, we aim to reinforce and develop the original argument that narrative is non-mechanical: the deployment of narrative does not mean that it will have particular results, because outcomes are dependent upon reception. Narratives are not performative in any straightforward sense, though successful narratives require performance. Second, we emphasise that narratives should not be seen as something that is exclusively part of Anglo-American capitalism. The internationalisation of share registers, as well as of debt markets, means that large, publicly-held firms in many countries have explained their financial performance using narrative. Third, we aim to add a new emphasis on conjuncture as the context that shapes not only the narratives themselves but also their reception and durability. These ideas are explored by means of a cultural-political approach that attempts to understand narrative and its limits in different locations, levels or contexts (firms, industries or activities). Following an introduction, the second section of this article explores narrative for public firms in the context of shareholder value. The third section elaborates the idea of narrative for the capital market by means of four key themes: levels, transmission, numbers and performance. The fourth section then provides a macro perspective and identifies paradoxical effects of shareholder value at the aggregate level. The final section explores the implications of this contribution for understanding narratives in financialised capitalism.

Keywords: **narrative, financialisation, shareholder value, conjuncture, financial markets**

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Julie Froud, Sukhdev Johal, Adam Leaver and Karel Williams (and, more recently, Ismail Erturk) have written on shareholder value, financialisation, elite intermediaries and financial innovation. Published books include Froud et al. (2006), *Financialization and Strategy: Narrative and Numbers* (Routledge); Erturk et al. (2008), *Financialization at Work: Key Texts and Commentary* (Routledge); Savage, M., and Williams, K., eds (2008), *Remembering Elites* (Blackwell). Julie Froud and Sukhdev Johal are editors of the journal *Competition and Change.*

1 Introduction

> *so Scheherazade rejoiced, and on the first night of the Thousand Nights and a Night, she began her recitations*
>
> —R. F. Burton, *The Book of the Thousand Nights and a Night*

> *but I have no hope of saving my life, nor can I count on having even a thousand nights and a night*
>
> —Salman Rushdie, *Midnight's Children*

The aim of this article is to explore the links between narratives and the study of capitalism. Perhaps this is not so paradoxical if one thinks of the prototypical framing narrative of Scheherazade diverting King Shahryar. The storytelling is motivated by Shahryar's disappointment with past performance and the hurt of his first wife's infidelity, and also by Scheherazade's inventiveness as she seeks to postpone execution of herself and the wives to come after her. In circulation, the story is embellished: Rushdie, for example, reminds us that from the storyteller's perspective the consequences are radically uncertain. In this article, we aim to unsettle mechanical concepts of capitalism in political and cultural economy and begin to understand the mobility and resourcefulness of capitalism where narrative plays a role but the outcomes are uncertain.

After the eclipse of scientific Marxism and the cultural turn in the social sciences, concepts of ideology have been largely displaced by ideas about discourse, rhetoric and narrative. As mechanical concepts of varieties of capitalism and simple notions about institutional complementarities become increasingly difficult to maintain, so narrative becomes more important in our understanding of capitalism. It is not necessary to reduce capitalism to stories, but this article aims to demonstrate that adding a cultural inflection to political economy allows new insights about how we can understand corporations, financial markets and their relations with the rest of society. In the period up to the start of the 2007 credit crunch, instruments of financial innovation like the securitisation of mortgages were seen by regulators and politicians as being about the 'democratisation of finance' and the 'marketisation of risk'. Thus, financial innovation made possible the opening up of credit to people who would not otherwise have been able to buy a house or a car. Meanwhile, on the wholesale financial markets, so we were told, risk was better understood, priced and managed. The dominant narrative of finance was that financial innovation was in the social interest (Engelen et al. 2008), though it was dependent upon the conjunctural conditions of credit availability and 'light touch' regulation. Of course, the string of bank collapses and bailouts in late summer and autumn 2008 undermined the narrative that financial globalisation was progressive, and the innovators rapidly became villains, not heroes, in public and political discourses. The example illustrates that narratives can be both powerful and fragile. While they allow us to interrogate financialised capitalism, we should not assume that they have an independent life, just as they are not, in themselves, the whole story.

The focus of this article is the narratives of and about large corporations in financialised capitalism. In particular we are interested in how firms have recognised the importance of narrative in their relations with providers of capital and financial intermediaries. We develop the analysis of *Financialization and Strategy: Narrative and Numbers* (Froud et al. 2006) in several ways.[1] First, we aim to reinforce and develop the original argument that narrative is non-mechanical, especially in relation to outcomes: the deployment of narrative does not mean that it will bring particular results, because narratives are not linear or unidirectional

[1] This book contains three extended cases (GlaxoSmithKline, Ford and General Electric [GE]), based on 20 years of financial analysis. In this article we do not reiterate the argument of those cases in any systematic way but draw upon them and update them, as appropriate, to illustrate our arguments. The main advantage of the long-term case format is that it allows development of an extended argument about the company in a way that is not possible in the fragments of company analysis and examples used in an article of this kind.

and because outcomes are dependent upon reception. Narratives are not performative in any straightforward sense, though successful narratives require performance. Thus, in the period up to 2007, financial innovation was seen as a success because investment banks and other financial institutions were making so much money, but narrative on its own does not guarantee outcomes. Second, we emphasise that narratives should not be seen as something that is exclusively part of Anglo-American capitalism. The internationalisation of share registers, as well as of debt markets, means that large, publicly-held firms in many countries have explained their financial performance using narrative. Third, we aim to add a new emphasis on conjuncture as the context that shapes not only the narratives themselves but also their reception and durability. As we have seen in the unravelling of the 2008 financial crisis, it was the particular conjunctural conditions that allowed the financial sector to make (what appeared to be) such large profits up to 2007, rather than the discovery of a new paradigm that helped the economy to function more effectively.

Exploring these ideas requires a cultural-political, non-mechanical view of capitalism so that we can understand narrative and its limits in different locations, levels or contexts (firms, industries or activities). In particular, the analysis of narrative needs to incorporate explicit awareness of its limits as any kind of totalising concept that explains financialised firms and what they can achieve. The second section of this article explores narrative for public firms in the context of shareholder value, and relates this analysis to other academic work on company narrative and stories. The third section elaborates the idea of narrative for the capital market by means of four key themes: levels, transmission, numbers and performance. The fourth section provides a macro perspective and identifies paradoxical effects of shareholder value at the aggregate level. The final section explores the implications of this contribution for understanding narratives in financialised capitalism.

2 Shareholder value, the capital market and ideas about story and narrative

> *Our goal is to be a more client-driven organization that is more accessible, innovative, and able to strike quickly at the many unique global growth opportunities for Citi. I firmly believe that we have embarked on an era of renewed growth and that the changes we are making will lead to sustainable growth in shareholder value.*
>
> —Charles Prince, CEO Citigroup (2007)

If we reject ideas of rational capital markets where the value of a coupon, be it a share, bond or whatever, can be calculated on an agreed basis, then narrative fills a gap created by uncertainty, imperfect information and sentiment. Various capital market players and commentators have identified the significance of emotions like greed and fear in governing views about the attractiveness of particular coupons (Pixley 2004), just as behavioural finance is an academic vindication of the limits of the rational neoclassical view. In response to the 2008 financial crisis, politicians have declared that their objective is to rebuild 'confidence', recognising, first, that the previous dominant narrative about financial markets has been undermined by extreme events and, second, that there is a need for a new narrative that might contribute to a stabilisation of the financial system. This section outlines the context of shareholder value, before explaining how our use of narrative for the capital market relates to a growing interest in stories and signalling in other academic work.

If there is now consensus that stories are an important aspect of capital markets, our interest in narrative originated in the rise of *shareholder value* in the 1990s. In a period when growth in mass investment in pensions and other kinds of funds helped promote shareholder interests in public and academic discourse, the shareholder value revolution (Aglietta and Rebérioux 2005; Froud et al. 2000) was based on two linked arguments. First, it was necessary to argue that companies were failing to deliver adequate levels of shareholder value and, second, the rejoinder was that performance could be improved through the use of metrics and value-based management programmes supplied by a range of consultancy firms (Rappaport 1986). Tony Golding's *Inside the City: the Great Expectations Machine* (2001) provided a shrewd and compelling account of the importance of stories and sentiment in how fund managers viewed the companies in which they invested. In focusing on what fund managers want, Golding opens the way to a more general argument that public companies need a narrative of purpose and achievement which is directed at the capital market, just as they need a strategy for the product market, though having a plan for either one or both does not guarantee successful execution. Narrative becomes increasingly important for complex firms whose performance (and in some cases strategy) may be opaque because, as Golding argues, fund managers like simple stories such as 'growth' or 'restructuring' in companies that they think they can understand. The quotation of Charles Prince, then head of Citigroup, is an attempt to forge a narrative of purpose and growth for a diverse financial conglomerate in a year when, as he admits, 'our bottom line performance in 2006 was good, but not spectacular' (2007, 7).

Sony provides a good example of both the importance of narrative and some of the complexities that we explore in this article. The appointment of Howard Stringer, the first non-Japanese chief executive officer (CEO) of Sony, was a meaningful response to the company's dire financial performance in the early 2000s after the so-called Sony Shock, when the company cut its profit outlook and admitted serious problems in its core electronics division. Stringer's 'Sony United' strategy was more an aspirational slogan than an easily-realisable plan, given the difficulties faced in many of its key product markets. The new CEO talked about breaking down 'silos' and controlling a 'not invented here syndrome' (*Financial Times*, 28 June 2005) while also explicitly talking about shareholder value creation. The company's US investors were expecting radical change, and there was general approval for the new CEO, but Stringer's actions were constrained by Japanese corporate culture. The plan that Stringer finally announced several months into his tenure disappointed US-based analysts and journalists: this plan included 10,000 job cuts, product line reduction of 12%, 11 plant closures and a 5% operating margin target (*Financial Times*, 23 September 2005). Stringer countered the disappointment evidenced by a 4.6% drop in share prices immediately after the announcement, explaining that 'I think I went as far as I could go and still preserve the relationship with people that I have to work with and who have to drive change in this company' (*Financial Times*, 24 September 2005). While Stringer needed a narrative for the capital market, its reception by investors and the firm's financial performance were not directly controllable.

Stringer clearly understands the significance of having a good story, and the influence of the cultural turn in the social sciences has opened up many academic discourses to the idea of stories. Homiletic company narratives circulate outside business and the stock market with the rise of management practice and pedagogy about stories, including the business case as a narrative interpretation of decisions and outcomes (Collins 2003) and tales of the achievements of heroic management (Khurana 2002). In an explicit academic context, stories have also filtered into understandings of business and management, including in corporate strategy (Knights and Morgan 1991; Barry and Elmes 1997) and in organisational studies

(Boje 2001; Czarniawska-Joerges 1999; Gabriel 2000). In organisational studies, there is a contrast between those who complain about postmodernists seeing ‘stories everywhere’ (Gabriel 2000: 17) and those who thrive on the ‘postmodern condition of fragmentation and simulation [that] makes coherence problematic’(Boje 2001: 5). However, both Yiannis Gabriel and David Boje share a fundamental interest in stories in an organisational context, and these two authors have been influential in stimulating interest in the analysis of story and narrative.

There is, therefore, agreement that the deconstruction of the stories and discourses produced within corporations is one approach to understanding internal culture and struggle. Moreover, some strategy and organisational studies writers recognise that stories may also be geared towards outsiders. For example, David Barry and Michael Elmes identify ‘changing patterns of authorship’ in which strategists will increasingly consider stakeholders’ knowledge to build narratives that respond to them (1997: 442-443), and David Knights and Glenn Morgan see the ‘power effects’ of strategy discourses when such narratives are used to complement annual reports in order to influence investors (1991: 264-265). Such accounts acknowledge the impact of narratives on external actors, but the ‘response’ of the audience and its role in deconstructing and acting upon discourses is not central here because the object of analysis is the workings of organisational life. However, recent work on the development of a ‘signalling theory of the firm’ (Littler 2006) emphasises possible responses from the audience, where signalling is considered to exist mainly ‘in order to maintain or enhance stock prices’. According to Craig Littler, CEOs use a set of standardised and coded messages, for example about mergers or downsizing, to frame short-term future action in a ‘signalling space’ that includes multiple actors such as analysts, media and credit-rating agencies which, in turn, make a response.

Littler's argument is useful in showing how institutional or individual investors incorporate non-financial information in their decision-making and how such signalling can speed up 'information assimilation' (p. 634). However, we take a different approach in arguing that narratives are not passively 'assimilated' but rather actively co-authored by corporations, analysts, journalists and investors. Boje's idea of 'antenarratives', which takes into account 'non-linear, almost living storytelling that is fragmented, polyphonic and collectively produced' (2001: 1), is useful to describe this process. Therefore, narratives and stories are understood here to be non-hierarchical concepts not bound to plots or chronologies, but reflecting particular qualities. Two such qualities are intertextuality, when texts are part of a network of fragments, voices, conventions and audiences occupying different positions in production, distribution and consumption networks; and tropes, the attributing of motive, causal connections, and the responsibility for building meaning and connection between different bits of narrative. Our argument rejects any positivistic account of fact as truth in favour of the idea of fact as something that cannot simply be created by the narrative, opening the possibility for (external) challenging accounts. The following section explores the narratives of financialised firms and the limits of simple understandings.

3 Narrative in action: the micro frame

> *'... we failed to meet our expectations. Our primary shortfall was a decline in financial services earnings. We knew the first quarter was going to be challenging, but the extraordinary disruption in the capital markets in March affected our ability to complete asset sales and resulted in higher mark-to-market losses and impairments,'*

Immelt said. 'Our inability to complete these asset sales and higher mark-to-market losses and impairments impacted earnings by $.05 per share versus plan.'

—GE first-quarter earnings announcement, April 2008

'GE will have to reestablish investor credibility and earnings consistency before valuation can move higher,' wrote Citigroup analyst Jeffrey Sprague, who cut his rating on the stock to 'hold' from 'buy' today, in a note to investors. 'GE may have reached the point that its size and complexity have become a hindrance to effective management.'

—Bloomberg News, 11 April 2008

If Golding (2001) draws our attention to communication with capital market actors, we need a concept of narrative that can help us to understand public companies in financialised capitalism. While the subject of such narrative is often an attempt to present a plausible business model for delivering shareholder value, the business model itself can be a source of weakness because of its fragility, or strength, because it is undisclosed. This section explores narrative about corporations by focusing on four themes or elements: levels; multiple voices and complex transmission; the relation with numbers; and the significance of performance or enactment. In doing so we aim to highlight the complex, dynamic and uncertain nature of narrative, where conjuncture (or context) and reception are important qualifiers of its agency.

The first element is to recognise that the narrative of a firm is nested within often elaborate industry and grand narratives, which may be enabling or constraining. For example, a firm may have difficulty in distinguishing itself against a conventional understanding of a particular industry as being mature or commodified, just as a firm in another industry may benefit from what Phil Rosenzweig (2007) would call a ‘halo effect’, where the attractiveness of an industry confers success by association. Industry narratives can be fairly durable because they reflect fundamental problems about, for example, cyclical or mature activities, or because they relate to social or political aspects of an activity. Thus, the pharmaceutical sector has been very successful in the last 40 years in terms of growth and profitability, but it has been mired in a challenging and critical narrative about the social purpose of the activity. The critical industry narrative variably combines US Senator Kefauver’s 1950s critique about profiteering (Froud et al. 2006) with later concerns about the price of AIDS drugs. In other cases, industry narratives need replacing; for example, US auto manufacturers emphasise their commitment to producing smaller, more fuel-efficient vehicles in an era of high gas prices and increased environmental awareness. Such a narrative stressing social value acquires new importance as car companies across the world suffer from the shortage of credit and the economic turndown, and apply to national governments for access to bailout funds and other financial support.

In a different way, grand narrative helps to shape conjunctural opportunities. For example, the ‘new economy’ provided a novel heuristic whereby the technological paradigm would create new products and delivery channels and, by undermining old business models, create different winners. Of course, grand narratives can themselves be highly simplified. Although it is quite clear that the Internet is a transformative technology, the pattern of winners and losers is complex given the ability of existing players to use technology to consolidate their positions against new entrants. The end of the credit-fuelled boom in 2007 has generated a putative grand narrative of ‘the credit crunch’ or ‘the financial crisis’, which is now the lens through which financial performance and strategy is read. This shift was apparent when Jeffrey Immelt, the successor to Jack Welch at General Electric (GE), had to explain an unprecedented profit warning early in 2008, the subject of the quotations opening this section. Of course, the appeal to a grand narrative suggests that the helpless corporation is tossed about in a sea of externally-generated misfortune. But the problem of credit shortage is magnified by Welch's undisclosed business model, which was based on growth from the financial services businesses. This strategy came back to bite his successor, who had been attempting to rebalance GE towards industrial activities by shedding financial businesses and acquiring industrial ones. Though Immelt cannot entirely displace responsibility for the shock profit warning onto 'events', this story does highlight uncertainties inherent in financialised capitalism against which narrative cannot immunise.

Second, narrative is not about the simple transmission of messages. Narratives may be co-authored, such as when journalists repeat (and in doing so implicitly support) the narrative promulgated by firms, so that there may be agreement, for example, that a firm is in recovery or pursuing growth. In other cases, competing narratives may emerge when analysts or more critical journalists challenge the claims of management, providing different explanations of performance or expectations about delivery. Such multiple voices make control of narrative difficult because it is mediated (through press or analyst reports) with uncertainty about reception. Individual investors may formulate different responses, partly influenced by industry or grand narratives. But there are also analysts or journalists who are particularly influential and whose narratives are more likely to be taken up by others. Companies will likely invest time trying to ensure that such individuals appreciate the message that the company is attempting to deliver.

Public companies also may have more than one narrative. Just as they communicate with shareholders and seek to influence their views about the attractiveness of buying their shares, so do many companies also develop narratives for other audiences, including civil society, regulators and politicians. Firms that stress their superior financial performance to shareholders may at the same time seek favourable treatment from governments, on the basis of the vulnerability of their profits; companies that stress their commitment to delivering returns to their shareholders may at the same time attempt to persuade civil society that they have a genuine commitment to human rights or the environment.

A special case of competing narratives arises where activist investors target corporations in attempts to change strategy, board composition or remuneration. To be successful, activists need their own clear narrative about the unsatisfactory nature of corporate performance or strategy and the merits of a different approach. The targeting of Deutsche Börse in 2005 when it was attempting to acquire the London Stock Exchange, by hedge fund TCI, was ultimately successful when a sufficient number of investors was persuaded that this strategy was against shareholder interests. More recently, activist Nelson Peltz mounted an offensive against confectionary and beverages giant Cadbury Schweppes, arguing that by demerging it would release value from the more profitable beverages business as well as force managers to restructure the confectionary business. Within a mere 36 hours of Peltz making his campaign public, Cadbury announced that the company would be split. In the cases of both Deutsche Börse and Cadbury Schweppes, there was an explicit narrative contest in which the representations of the activists were powerful enough to convince other investors that the company's narrative was not credible. In both cases, activists used numbers in support of narrative, but the narratives were much more than simply a contest of arithmetic: instead, various actors in and associated with the capital market, such as analysts and fund managers, became engaged in the construction (or deconstruction) of these narratives.

Third, narrative for the stock market is not independent of financial numbers. Narratives are not, in themselves, constitutive, though they may sometimes have that effect. The numbers that represent performance outcomes of corporations (such as sales growth, profit, return on equity or share price) are not a simple function of the firm's narrative, opening up interesting possible relations of corroboration and discrepancy. At the simplest level, the numbers act as a check on the narrative that senior executives develop, and commentators may use numbers to counter or undermine a company's own account of its performance or strategy. Narrative also might be used by the corporation to help interpret disappointing performance or to deflect responsibility. This is not to imply that narrative is always constructed and that numbers are always facts. It is clear that accounting numbers are the result of decisions made about, for example, how to value or when to count a transaction; and of course numbers are sometimes fabricated, as well-known accounting frauds demonstrate. But there is sufficient trust in numbers for the capital market community to use them as indicators of promise, delivery or failure.

Generally, narrative is most successful when the numbers appear to corroborate the narrative. The co-authored narrative of GE under Welch provides perhaps the textbook case: the corporation's narrative of internal culture and organisation, as well as its stream of high-profile initiatives like 'No. 1 or No. 2' and 'boundarylessness', were widely seen as responsible for consistently high performance (Froud et al. 2006). The financial performance is described in superlative terms by *Fortune*: 'quarter after quarter, year after year, GE's earnings come gushing in, usually at least 10 per cent higher than the year before and almost invariably in line with the analysts' estimates' (19 February 2002). Conversely, numbers can be used by critics to identify weakness and discrepancy in narrative, as with GE's 2008 performance. While corporations can attempt to control the presentation and interpretation of numbers, they are constrained by disclosure rules. The large volume of financial information about public companies also allows commentators to highlight different aspects of performance, just as the interpretation of any particular number can vary. Because the numbers do not have their own voice, they can be arranged or rearranged in different (plausible) ways by analysts or journalists who seek to support the narrative that they construct. Any analyst or journalist who ventures beyond the press release will often find a range of numbers that challenge narrative assertions about delivery or performance.

Thus numbers play a key role in discrepancy and corroboration. For example, writing in the *Financial Times*, Lina Saigol cites data on looming patent expiry in the pharmaceutical industry and the slow rate of development of new blockbusters, concluding that ‘some of the world’s biggest pharmaceuticals companies, including GlaxoSmithKline and AstraZeneca, face their worst crisis in decades’ (8 May 2008). Disappointing numbers undermine the credibility of existing narratives, and management reputation may depend on developing a new narrative. In GE’s third-quarter 2008 earnings release, Immelt seeks to rebuild a narrative when he asserts that ‘we have continued to take decisive steps to strengthen GE in a tough environment’ (GE 2008b) and that the decision of Warren Buffett to invest in GE ‘should serve as a compelling vote of confidence in our future’ (GE 2008c).

The fourth element to be acknowledged is the significance of performing or enacting strategic narrative. Thus, talk of rationalisation and simplification needs to be accompanied by plant closure, redundancy and product review to underline seriousness. If narrative was simply about the script, then more firms might be proficient at developing convincing stories. But the narrative also needs to be enacted. Though Immelt has had difficulty in following Welch’s record of consistent earnings growth, he did appreciate the importance of initiatives. Early on in his tenure, Immelt identified technology and innovation as central to his strategy. The 'Ecomagination' initiative launched in 2005 emphasised development of green technologies, including energy efficiency, as part of a coordinated approach within the company, so that GE could re-present itself as a thoroughly modern industrial company. In an interview with *Industry Week*, Immelt stated, 'This is not just good for society, it's good for GE investors – we can solve tough global problems and make money doing it' (1 August 2005). According to *Business Week*, despite opposition from many senior executives, Immelt pursued his vision, which by 2008 had 'paid off' in terms of generating sales and increasing the value of GE's brand (4 March 2008). In narrative terms, this represents successful enactment because it aligned much of what the company was doing with a grand narrative about being 'green'.

Other initiatives have been less successful than those at GE: for example, Froud et al. (2006) outline Jacques Nasser's failed attempt to reinvent Ford as a 'motoring services company', where forays into car rental and car repair were not successful at diversifying the business. Howard Stringer's attempt to present himself as a 'Sony warrior' (*Financial Times*, 23 June 2005) with his 'Sony United' initiative has been mixed, because the aim of successfully integrating Sony's hardware and software businesses was not only not new but also fundamentally difficult to achieve. Stringer has an eye for performance, as illustrated by the decision to have 80 young software engineers 'shown to the best seats in the hall' at Sony's annual strategy meeting, while senior managers were relegated to the less comfortable seats at the back, in a significant break from normal protocol (*Financial Times*, 22 June 2006). But the task of transforming Sony and of meeting the 5% target on operating profit margin by 2008 was so ambitious that the attempt to steer a clear narrative course was buffeted by events such as the mass recall of the lithium-ion batteries used in notebook computers, which cost $500 million, and by delays in the launch of the PlayStation 3. At the same time, Sony's eventual success in early 2008 with its Blu-ray DVD technology competing against Toshiba's HD-DVD in the so-called format war seemed to provide a tangible example of the success of Sony United, even if the financial implications are as yet unclear.

Taken together, narrative, performance and numbers are an unstable configuration, particularly when it is clear that 'successful' narrative also depends on mediation and reception. Some narratives are more enduring, but in many cases narrative becomes a kind of instant history, with management providing a rationalising line on the latest results or decisions, while journalists and commentators produce superficial understandings of what is going on, often undermined by future developments. Narrative is necessary to forming understandings of complex companies or events (or in trying to persuade others to make appropriate interpretations), but this need also provides an inherent limit to its power or durability. Not surprisingly, then, much narrative is ephemeral. Thus, while acknowledging the importance of narrative to firms and commentators in explaining complex companies or issues, we wish to avoid any assertion that narrative, in itself, is influential in the micro relations between corporations and capital markets. In the next section, we broaden our analysis and consider macro relationships and the paradoxical nature of narratives of shareholder value.

4 Narrative, performance and the macro frame

All public companies now engage to some extent with the shareholder value agenda by articulating their commitment to investors. For example, Peugeot Citroën set out a new 'strategic plan' for 2010–2015, explaining that '[this] will make PSA Peugeot Citroën the most competitive carmaker in Europe, steadily growing and profitable, with significant international development, open to opportunities of strengthening and of creating shareholder value' (PSA 2007). Volkswagen (VW) has a carefully crafted narrative that emphasises global sales growth, productivity and innovation. Yet they also have ambitions to produce a 'double-digit' return on investment (VW 2008) and, in doing so, to become one of the best performers in the industry. Of course, in some cases such declarations are highly rhetorical and the narratives are not enacted in any meaningful way. But at the macro level the equally interesting finding explored in this section is that the phase of financialised capitalism has had very mixed results in terms of the ability of corporations to deliver more shareholder value. First, we show that many UK and US firms fail to deliver (reinforcing the need for a company narrative to cover for underperformance), though CEOs and intermediaries do very well financially with their own justificatory narratives. Second, we challenge simplistic ideas about comparisons between UK or US and European firms. The aim of this section is to explore complex relations between actions, narratives and macro outcomes, not simple mechanisms or ideologies. Thus, narrative, or its absence, cannot be used in a simple way to distinguish different kinds of capitalisms. The analysis also reflects our mixed methods approach, combining interest in narrative with long-term empirical evidence, and challenging ideas that financialisation has straightforward outcomes in terms of performance.

Any analysis of the aggregate performance of large public companies in the United Kingdom and the United States raises questions about the realisability of the shareholder value project. In particular, the analysis challenges any assertion of consistent financialisation effects, while widening the pool of potential beneficiaries beyond shareholders. If we consider the

FTSE 100[2] and the S&P 500[3] to be the group of large UK and large US corporations, respectively, what is immediately apparent is a gap between the 'for the shareholder through purposive management action' rhetoric of shareholder value and the outcomes. Table 1 shows the long-term performance of two groups of firms in each country: first, the 'constituents' – those 100 or 500 firms that were in the FTSE or S&P index in the year in question; and, second, the smaller group of 'survivors' – those firms that have been members of the index continuously for 20 years since 1983. Table 1 shows that the constituent groups grew at less than 3% per annum on average in real terms. It is, of course, not surprising that these groups grew no faster than gross domestic product (GDP), because that provides a constraint on demand in their major markets. Over this same period, the growth in profits was lower for all groups except the FTSE 100 survivors, where high performance by a small number of firms (like pharmaceutical firm GlaxoSmithKline) pushes up the overall performance of the group. If we switch from table 1, which shows annualised rates of change, to a graph of performance in figure 1, it becomes apparent that the story is one of cyclical return, not of any sustained improvement in performance. Management has not transformed the profit generation of UK or US public companies on aggregate, despite its alleged commitment to shareholder value.

What is striking in table 1, however, is that the market value of firms saw on average a double-digit increase in real terms each year, so that investors did enjoy an increase in the stock market value of their holding. These increases were experienced across the board. For example, if we take the annual constituents of the S&P 500 index, approximately the 500

[2] The Financial Times Stock Exchange (FTSE) 100 is the group of 100 largest companies listed on the London Stock Exchange. Size here is measured in terms of stock market value. Movements in the share prices of these 100 firms are given by the FTSE 100 index.
[3] The Standard & Poor's (S&P's) 500 is the group of 500 large public companies traded on either the New York Stock Exchange or the NASDAQ in the United States. The S&P 500 generally comprises the largest US-listed firms by market value but, unlike the FTSE 100, this is not the only criterion for inclusion in the index. Movements in the share prices of these 500 firms are given by the S&P 500 index.

largest public companies in the United States, over the period 1980 to 2002, the average increase in market value was 18% per annum, with annual real dividends growth of 2.8%. Ranking the companies by stock market value and dividing them into five (quintile) groups allows us to assess whether all groups experience similar growth. The smallest companies by market value grew the fastest (25.1% per year on average), with dividends growing at 3.8% per annum. The largest fifth of companies increased their stock market value by 19.1% per year, with dividend growth of 3.1% on average each year.[4]

The increase in market value shown in table 1 was the result of the stock market valuing earnings more highly, rather than of any fundamental improvement in operating performance which would have been revealed by a step change in sales growth or profitability. However, this kind of do-it-yourself shareholder value creation is fundamentally vulnerable to downturns in the market, as events in 2008 confirm, when all major indices have significantly declined. Shareholder gains are critically dependent on the timing of buying and selling; on the other hand, it is clear that senior executives are the beneficiaries of the shareholder value narrative. Consultants and academics alike urged companies to adopt remuneration schemes with significant elements of incentives tied to value creation. The outcome, shown in table 1, has been a marked improvement in CEO pay, beyond any level that could be supported by shareholder value creation. Justified by such spurious reasoning as the ‘global market for talent’, executive pay has risen all across the advanced countries despite public (and sometimes investor) concern about the absence of any clear link between pay and performance (Erturk et al. 2008). For example, in the United Kingdom, CEO pay in the FTSE 100 group of firms averaged £3.2 million in 2007, representing 100 times average worker pay in the same year (IDS 2007).

[4] The complete average annual increases in market value, from the smallest quintile (Q1) to the largest quintile (Q5) are 25.1% (Q1), 17.2% (Q2), 14.8% (Q3), 15.0% (Q4) and 19.1% (Q5). Real average annual growth in dividends is as follows: 3.8% (Q1), 2.1% (Q2), 0.8% (Q3), 3.3% (Q4) and 3.1% (Q5).

Since writing *Financialization and Strategy*, we have been struck by another group of beneficiaries who have benefitted from shareholder value: the intermediaries in and associated with the capital market, including investment bankers, corporate lawyers, private-equity and hedge-fund managers. Inasmuch as shareholder value has encouraged an 'economy of permanent restructuring' (Froud et al. 2008), the buying and selling of corporate assets, the growth of private equity and the intense financial engineering and re-leveraging of corporate balance sheets have created large pools of fees for intermediaries. While lack of public disclosure severely limits the availability of information on numbers of intermediaries and their revenues and rewards, many intermediaries have business models that profitably encourage the kinds of actions taken by public firms, apparently to improve shareholder value (Folkman et al. 2007).

The growth of intermediary activity like private equity and investment banking has not, of course, been restricted to the United Kingdom and the United States, and corporations outside the capitalist heartland have also engaged in highly financialised behaviour. The banking crisis has shown that the problems with respect to poor internal controls and risky behaviour in pursuit of profit were not restricted to Anglo-America. The overall results of financialisation in the groups of the largest public companies can be observed at a macro level. In the period to 2002, both the French CAC 40[5] and the German DAX 30[6] firms were less profitable than those in the FTSE 100 or S&P 500, as figure 1 shows. But what is striking in the French case is that these firms were on a high growth trajectory (shown in figure 2), which was steeper and more sustained than was the case for German, UK or US big firms. French firms have been significant acquirers (often of foreign assets), and stock

[5] The CAC 40 is the group of the 40 largest firms (by weighted stock market value) listed on the Euronext Paris exchange.
[6] The DAX 30 is the group of 30 major German companies listed on the Frankfurt Stock Exchange.

markets have failed to impose discipline on corporations that have not improved shareholder value delivery, even though overseas ownership has grown to the extent that, by 2004, almost half of CAC 40 equity was in foreign (mainly US) hands (Johal and Leaver 2007, 357). Quite the opposite, in fact, when acquisition was facilitated through new issues of debt and equity capital, as Mary O'Sullivan (2007) demonstrates.

Groupe Schneider, a French industrial company whose products include electrical distribution and control equipment, provides an interesting illustration. In the late 1990s the company's CEO, Jean-Claude Perrin, set about improving performance as measured by return on capital[7] through a plan known as 'Schneider 2000', comprising a mix of strategies such as educating employees about the importance of the cost of capital, increasing productivity, reducing employment and streamlining corporate structures (Young 1998). The ambitions to improve return on capital produced disappointing results, and Schneider's story is one of rapid growth by acquisition. By 2006, a Credit Suisse report notes, the company had spent some €4.4 billion in acquisitions over four and a half years (2006, 13–14). At the very least, this makes analysing the company over a period of time very difficult, because one year cannot be compared in a straightforward way with the previous one. Thus, the ability to challenge narrative through analysis of numbers is much reduced.

The implication of the macro analysis in this section is that narratives of shareholder value, adopted by corporations and taken up by analysts, journalists and others, have been no guarantee of sustained improved performance. The promotion of shareholder value was based more on ideology than on any understanding of the limits of what large firms can deliver at

[7] This is a measure of performance that shows the profits for the year as a percentage of the capital employed in the business. It can be thought of as a measure of how much profit is earned in that year per dollar of capital.

the aggregate level. As the French case highlights, discretionary management strategy is alive and well, facilitated by capital market intermediaries.

5 Implications and conclusions

This final section explores the implications of the analysis by making three points: first, the importance of narratives in financialised capitalism challenges any notion that big firms are the locus of initiative; second, management cannot be taken at its own estimation in terms of its narratives of purpose and its attributions of success; and, third, narrative and numbers need to be understood within a conjunctural frame, making it difficult to formulate general arguments about systematic (durable) outcomes.

The first implication is that essentialist ideas about the big firm as the locus of initiative are challenged by narrative and related developments in financialised capitalism. The inside/outside distinctions associated with the firm are blurred when the ability to initiate, control or challenge narratives of corporate purpose and achievement lies with many parties. The CEO’s vision may be set out in a carefully constructed narrative, but the co-authorship and competing roles of analysts, journalists, high-profile fund managers and other capital market actors mean that smooth transmission and reception cannot be guaranteed. The intrusion of the capital market into strategy, as we saw with the cases of Cadbury Schweppes and Deutsche Börse, makes the delivery and outcomes of narrative complex and unpredictable. Activist interventions are often hostile in nature and involve the use of narrative to inflict some kind of defeat on incumbent management. Meanwhile, other capital market actors, such as investment banks, also have powers of initiative in suggesting moves that might enhance shareholder value – typically actions which involve balance sheet transactions, including moving liabilities or assets off the balance sheet or increasing leverage.

The second point to emphasise is that, even when narrative appears to be successful in that it is well received, it is important to avoid simple identifications and apparent causality. The previous section outlined the disappointing outcomes of the shareholder value narrative at the aggregate level, but even for those cases where a focus on shareholder returns appears to have had positive results, there is a need for caution. As the analysis of GE under Jack Welch has demonstrated (Froud et al. 2006), a narrative that seemed credible, together with reliable financial results in line with what was promised, does not mean that the narrative explains the numbers. Welch's tenure at GE was striking in that he understood the performative value of initiatives that appeared to support his narrative. Though GE remained a hugely complex company, the initiatives enacted a narrative of the company that many audiences were happy to accept. As we have argued, the brilliant success of GE owed more to the undisclosed business model of adding financial services to a triple-A rated industrial firm and less to the much-vaunted performative initiatives. Some of the problems that Welch's successor Immelt is now having, of course, are the consequences of a business model reliant on finance businesses at a time when credit is scarce and expensive. The more general problem of falsely attributing company success (or failure) to particular firm characteristics, such as leadership, culture or creativity, is dealt with persuasively in Rosenzweig's *Halo Effect* (2007), which argues for a more critical interrogation of causality than many commentators offer. The implication of both Welch's GE and the argument of the *Halo Effect* is that management cannot be taken at its own estimation. For example, we should not uncritically accept that the narrative of management purpose identifies the causes of above-average performance, nor that the performative initiatives of one firm are a transferable recipe for success in another.

Immelt's difficulties at GE in 2008 provide the link to the third point, which is the importance of the conjunctural frame (Engelen et al. 2008). Conjuncture is not only a driver of cyclical aggregate performance by big firms (of the kind illustrated in figure 1); it is also important in any consideration of narratives for the capital market. Narratives and numbers are not always the same; they need to be redeveloped and reinterpreted, for example from the new economy boom to the dot-com crash, or from excess liquidity in 2002–2007 to the credit crunch and subsequent global financial crisis. Simple narratives are undone by conjunctural shifts, though others, like those of and related to the pharmaceutical industry, do endure because they are about fundamental moral and political issues. We argue that any kind of systematicity is conjunctural and likely to last no more than about seven years before flows of funds, values and grand narratives change in significant ways. Thus, we started writing on financialisation in the late 1990s, at the height of the new economy and when shareholder value for old economy firms was firmly entrenched. There were, of course, double standards for old and new firms: while established firms were being asked to deliver higher shareholder returns, escalating losses in dot-coms were tolerated. However, instability and disappointment in the extent to which the new economy had been transformative in turn led to Federal Reserve Chairman Alan Greenspan's policy response of cutting interest rates. This opened up the next conjuncture of excess liquidity in which hedge-fund managers and private-equity general partners legitimated themselves by creating new narratives that pointed to the limits of long-only funds and corporate governance in public companies, arguing that they had found new models of investment or management. These shifts have implications for our understanding of the distinctiveness of financialisation in present-day capitalism, which is not an epochal stage but a mobile, resourceful and ambiguous process. A critical analysis of narrative is now an essential part of understanding firms, industries and financialised capitalism.

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Table 1: Performance of large UK and US firms between 1983 and 2002 (in real 2003 prices)

% *annual* real change between 1983 and 2002						
	Sales	Pre-tax profit	Market value	Directors' pay	Dividends (UK) Dividends and interest (US)	Headcount employment
FTSE 100 (constituents)	2.7%	2.7%	18.2%	26.2%	19.0%	1.1%
FTSE 100 (survivors)	1.9%	5.7%	17.5%	28.5%	16.8%	0.8%
S&P 500 (constituents)	2.5%	1.5%	13.3%	n/a	5.6%	1.2%
S&P 500 (survivors)	3.7%	2.5%	11.2%	n/a	4.3%	1.5%

Sources: Datastream (UK data) and Compustat (US data).

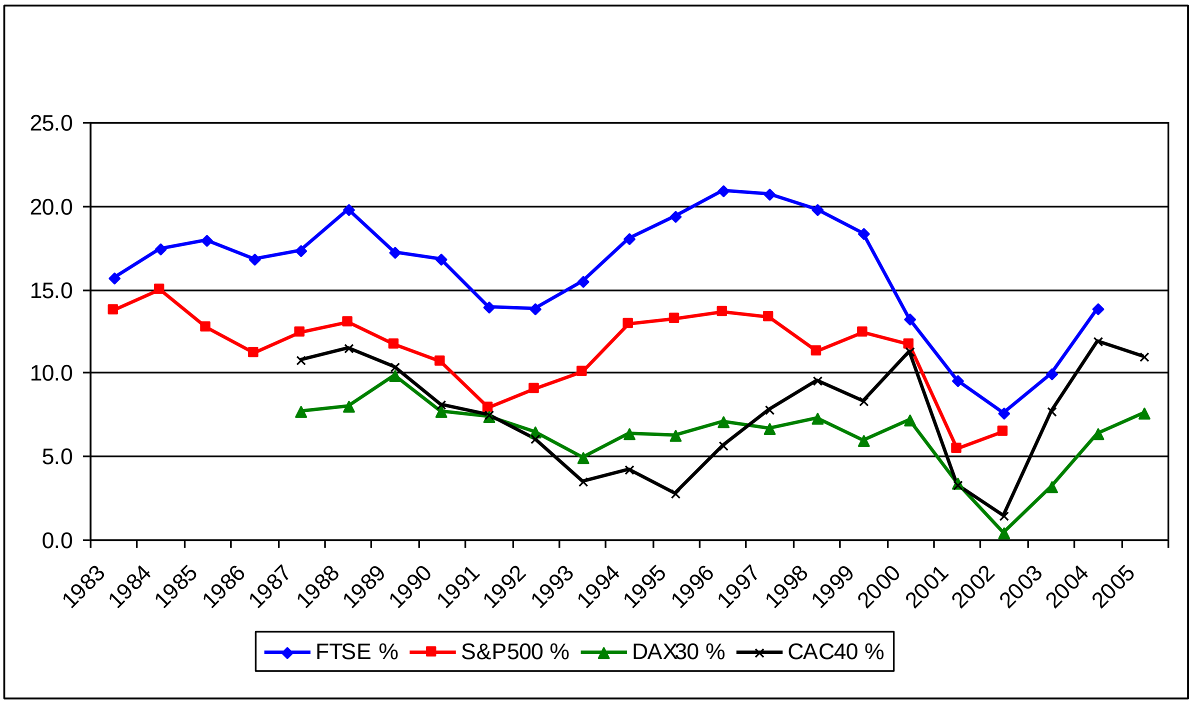

Figure 1: Return on capital employed

Note to figure 1: Return on capital employed (ROCE) is calculated as the profit for the year divided by the value of capital (debt and equity) in the company.

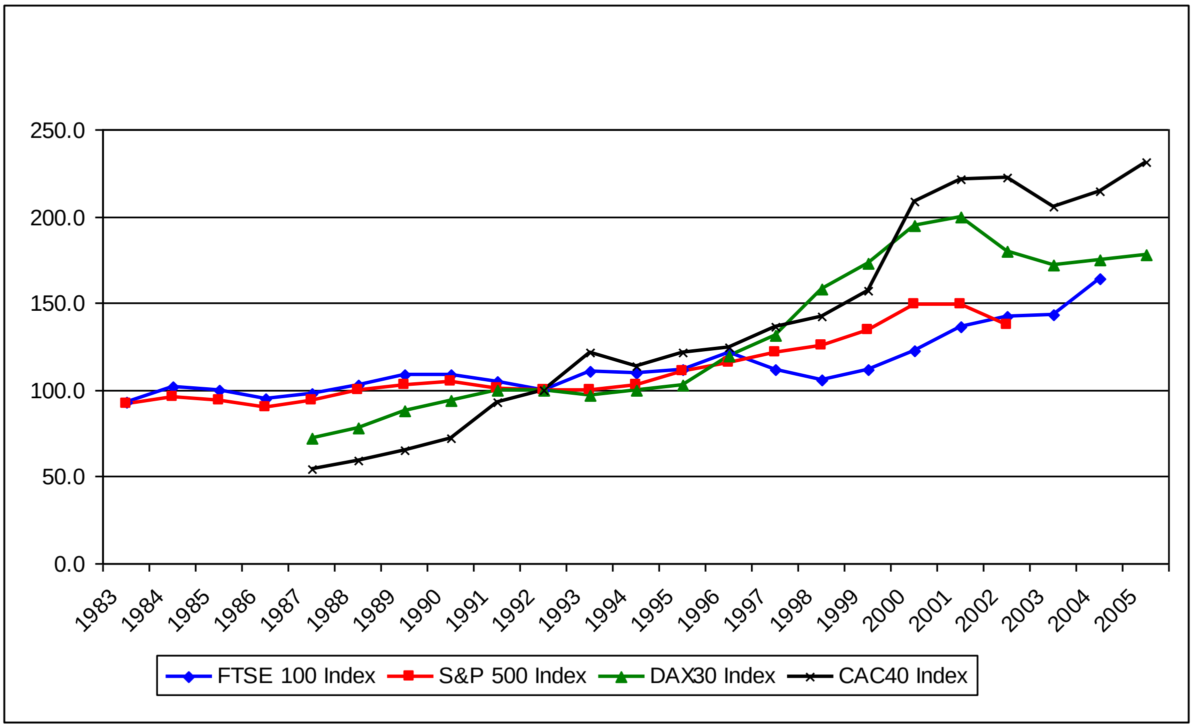

Figure 2: Index of real sales growth (1992=100)

Note to figure 2: Real sales growth is the difference in sales revenue (turnover) from one year to the next, after removing the effects of price inflation.