

## Corporate Malfeasance and the Myth of Shareholder Value

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The bankruptcy of Enron in December 2001 marked the beginning of broad awareness that American corporations had left behind the strategy of expanding through diversification that was the hallmark of the 1950s through the early 1980s. CEOs now made it job one to meet the earnings projections of securities analysts, such that by the year 2000 they were, in record numbers, “restating earnings” – admitting that they had cooked the books. Accounting shenanigans were the tip of the iceberg, and what lay under the water was a new approach to running the corporation to produce numbers that analysts and institutional investors would like. Three groups that stood to benefit from the new strategy spun it to investors as in the interest of all. Managers of hostile takeover firms defined their business as setting firms on the path to performing for shareholders. Institutional investors defined earnings management, rather than acquisitions management, as increasing shareholder value and focused management attention on earnings by popularizing stock options. Securities analysts hawked their own profit projections as the reigning metric of corporate performance, and favored easy-to-analyze single-industry firms through “buy” recommendations. These three groups changed the incentives executives faced, making accounting shenanigans in the pursuit of earnings management widely popular and enriching institutional investors, analysts, and executives in the process. Regulatory changes to end malfeasance have made it marginally more difficult to perform illegal accounting practices, but they have not changed the core corporate strategy that has emerged since the early 1980s. The changes illuminate the rise of groups of business professionals in the power structure, for it was not investors but different groups of business professionals who won the day. The changes illuminate, as well, the role of the social construction of interest in power relations among groups – it was by convincing executives and shareholders that a new corporate strategy was in their own interest which these business professionals succeeded

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