IN THE MIRROR OF THE MARKET: THE DISCIPLINARY EFFECTS OF COMPANY/FUND MANAGER MEETINGS

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Abstract
We consider the consequences of the regular private meetings between directors of FTSE 100 companies and their major institutional shareholders. Whilst the economic incentives for both the flow of information and the formation of 'strategic informational relationships' between the two have been described elsewhere, little attention has been paid to date to the effects that increased levels of monitoring and surveillance have on the conduct and performance of company directors. We present findings from a qualitative study in which we interviewed finance directors and fund managers, and observed a series of meetings between them. We draw on Foucault's analysis of the operation of disciplinary power to suggest that the meetings serve as ritual reminders to directors that their primary objective must be the pursuit of shareholder value, a task that whilst empowering, may also have unintended consequences.

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This paper draws upon empirical qualitative research with Finance Directors and Investor Relations managers to examine the disciplinary consequences of their meetings with institutional investors.

The mechanisms of the company / investor relationship are well known. At the heart of the relationship is the annual financial reporting cycle with, in the UK, the publication of yearly and half yearly accounts. An annual general meeting provides an opportunity for directors to report face-to-face to their shareholders and for their proposals to be sanctioned with shareholder votes. These formal processes are augmented and subverted by a variety of other mechanisms. Results announcements are accompanied by annual or bi-annual briefings that provide an opportunity for a presentation and discussion of the results with sell-side analysts who serve as key intermediaries between companies and their investors. These general presentations and discussions are typically followed by meetings between executive directors – typically the chief executive and/or finance director, sometimes with an investor relations manager – and fund managers and analysts from their major investors.

By all accounts the last decade has involved increased attention to all these mechanisms. Part of this can be traced to the increasing concentration of ownership, and power, in the hands of large institutional investors. Since the 1960s the diffusion of ownership that Berle and Means (1932) identified as the source of the governance problem has been reversed. Institutional ownership now accounts for over 80% of UK equities, with the top ten firms alone accounting for 25% of the market Gaved (1997). This concentration and the illiquidity it sometimes implies, together with increased competition between investors, have arguably given the investors both the opportunity and the need to actively manage their relationships with companies.

Another factor has been a spate of unanticipated corporate failures, which has in turn led to an intensification of both national and international regulatory intervention over the form and extent of financial disclosure, along with the development and proliferation of corporate governance codes (Cadbury 1992, Hampel 1998, Turnbull 1999, Higgs 2003). Inside companies the structure and conduct of boards has changed, with most large UK companies now separating the role of chairman and chief executive, and with a larger number of 'independent' non-executives playing a more dominant role, especially in relation to audit, and executive remuneration. Externally, both the quantity and quality of disclosures have increased under the pressure of new standards, and this has led to an enhanced role for the finance director (Walther and Johansson 1997; Favaro 2001). Both the chief executive and the finance director now commit much more of their time to managing their relationships with investors, Pye (2001) suggesting an increase over the decade from 10% to 25%. They are now typically supported in this by a dedicated investor relations function (Marston 1996; Rao and Sivakumar 1999). In recent years institutional investors have themselves also come under increased scrutiny (Myners 2001) and against the backdrop of possible legislative intervention (The Company Law Review Steering Group 2001; Department of Trade and Industry 2002) UK institutional investors have begun to develop codes related to their own conduct of voting, and active engagement (Institutional Shareholders' Committee 2002).

With much of the interaction between companies and their investors being conducted remotely, and through the medium of the accounting data, academic attention has been focused on mandatory public disclosure and its effects. Most of the literature here employs quantitative analysis to develop models of accounting and financial market interactions (Verrecchia 2001). Assessments of the relative importance of statutory disclosures (e.g. the profit and loss account, cash flow statement, balance sheet, chairman's statement and directors' reports, and the operating and financial review) have been made by, amongst others, Lee and Tweedie (1981), Arnold and Mozier (1984), Day (1986), Lev and Thiagarajan (1992), Clarke and Murray (2000); Barker (2001). research has also been carried out on the impact of corporate announcements on financial markets. (See, e.g. Firth (1976) and Maingot (1984) on announcements of earnings forecasts, Skinner (1992) and Kasznik and Lev (1995) on profits warnings, and Lev (1999) on dividend increases and partial floatations.)

Much less attention has been devoted to the focus of the present paper: the face-to-face meetings between companies and fund managers. Early surveys of brokers' analysts in the UK (Arnold and Mozier 1984) and the USA (Chugh and Meador 1984) pointed to the importance that analysts attach to direct company contacts. However, it was only in the 1990's that direct contacts between fund managers and companies began to be studied using qualitative research methods (Barker 1997, Gaved 1997, Marston 1998, Holland 1998a). These studies suggest that both investors and companies attach great importance to and draw considerable value from their meetings, and that investors rank them as the most important source of information available to them (Barker 1998). Gaved suggests that fund managers use the meetings to assess issues such as 'How well do the managers know their business? Do they know their markets? Have they got a clear sense of direction? Are they working for themselves or shareholders? Do they do what they say they are going to do?' (1997:14). In similar vein Holland and Doran (1998) argue that the meetings are a 'unique source of information' for investors about company strategy, executive personalities and relationships and the quality of management, as well as providing an opportunity to track performance in relation to earlier promises. For companies the meetings are an important opportunity to receive feedback, get information on market sentiment, build market knowledge, as well as build investor loyalty (Marston 1997). All the studies point to the exclusive nature of such meetings; that they are typically restricted to major investors, or potential investors. Nevertheless, the studies report that both managers and investors are scrupulous in avoiding the disclosure of 'price sensitive' information.

In interpreting the significance of the meetings two related points of focus are evident in current studies; their significance for our understanding of the efficiency of markets, and their significance for the internal governance of companies. In relation to market efficiency, Barker (1998) follows Gonedes (1976) and Keane's (1983) work on the 'market for information', by looking at the economic incentives and information flows between finance directors, analysts and fund managers. His qualitative research on these triangular relationships points to a strong congruence of incentives between fund managers and finance directors that encourages the development of 'strategic informational relationships'; and to conflicting incentives for analysts and fund managers with the former favouring share price volatility in order to maximise turnover based commission. On this basis he suggests that the private meetings with companies are of central importance to share price determination, as well as providing an important form of accountability between fund managers and investee companies. At the same time the role of the analyst in supporting these processes has, he suggests, been misunderstood; their analysis is valuable not for the valuation it gives so much as a benchmark of consensus beliefs against which fund managers can test their private information. In a similar vein Holland and Doran (1998) argue that the private meetings with companies are a vital source of a competitive 'knowledge advantage' for the institutional investors. This does not depend upon the direct disclosure of price sensitive information but rather on the 'mosaic' approach (Loomis *et al.* 1972) in which pieces of information from meetings are combined with other pieces of information from other companies, analysts and other sources to 'produce a new company (or competitor) picture or insight'. More recently Holland (2001a; 2001b) has sought to explain 'how corporate disclosure behaviour has been formed by, and constrained by, the new corporate value creation processes'. Citing Stopford (1997) he points out that knowledge creation, articulation, processing and leveraging have become central corporate survival activities and suggests that the meetings offer institutions a vital means of understanding and assessing these intangible drivers of performance.

The other point of focus for these studies of investor / company meetings has been to explore their role in influencing the governance of companies. Whilst there has been a growing interest in the role of institutional investors as guardians of shareholder interests, public attention has typically focused on occasions of actual corporate failure or at least public conflict between companies and their investors.

Here it is Holland's (1998b, 2002b) work that offers the most comprehensive attempt to use qualitative data to open up the 'black box' of private investor influence. Initially he developed a five stage model charting the transition from subtle 'implicit' influence on companies in times when their performance was good, through to 'explicit' intervention first privately in form of strong advice, possibly followed by public conflict (Holland 1998b). More recently he has elaborated on this by looking at the way that governance mechanisms are used to influence the value creation chain of companies. Here he argues that 'fund managers focussed on the extended links within the internal governance processes (at board level), and their impact on value drivers such as top management quality, the coherence of strategy, executive pay and performance systems. These all set an internal context, process and sense of purpose to the corporate value creation processes and to the expected financial performance of the firm' (Holland 2002).

The discussion that follows is an attempt to contribute further to our understanding of how this 'behind the scenes' contact between companies and investors works. It draws upon interviews conducted during 2002/3 with finance directors and investor relations managers from 13 FTSE 100 companies. These interviews were part of a larger study that has also involved a similar number of interviews with UK fund managers. Much of what we learnt through our interviews with both companies and fund managers supports the findings of earlier studies. Our approach differs from these studies, however, in two important respects. The first is methodological and involves our explicit focus on the annual or occasionally bi-annual meetings between companies and investors. This sharp focus on the preparation for, conduct of, and consequences that flow from these typically hour-long meetings was designed to get closer to the texture of this social encounter. As part of this we were also able to sit in on and observe eight meetings, five as guests of institutional investors and three with a company as it conducted a round of meetings.

The second difference concerns the theoretical lens through which we want to interpret our research. Here we want to draw upon Foucault's work, particularly his analysis of the operation of disciplinary power, to augment what we suggest is an uncritical and unduly bifurcated interest in information and governance. Rather than separate out the information and control aspects of these encounters as other researchers have, we want to follow Foucault by insisting on the indivisibility of the power / knowledge nexus. Government, for Foucault, involves 'the conduct of conduct: a form of activity aiming to shape, guide or affect the conduct of some person or persons' (1979:2). Such forms of government are intrinsically dependent upon particular ways of knowing. Rather than seeing the intensification of the 'transparency' of corporate conduct over the last decade in terms of informational efficiency or completeness, or indeed competitive advantage, the proliferation of knowledge and the visibility it creates can be understood primarily in terms of its power effects. Financial accounts and associated commercial valuation models such as EVA both homogenise corporate activity and make possible the comparison, differentiation, and hierarchical ranking of corporate conduct. Amongst the most potent effects of such processes is the ‘normalisation’ of those who are subject to such a visibility. As Foucault puts it:-

> ‘He who is subjected to a field of visibility, and who knows it, assumes responsibility for the constraints of power, he makes them play spontaneously upon himself. He inscribes in himself the power relation in which he simultaneously plays both roles (1979:202-3).’

Within accounting it is in the work of Miller and O’Leary (1986;1994) that there has been the most systematic exploration of the multiple and shifting ‘practices’, ’techniques’ and ‘programmes’ that together effect corporate governance at every level of the corporation.

Such a dispersed view of governance stands in marked contrast to public and academic understandings of corporate governance which have been strongly influenced by the assumptions of agency theory (Jensen and Meckling 1976, Fama 1980). Here directors are cast as the ‘agents’ of shareholder ‘principals’, and the governance ‘problem’ construed in terms of how the principals can ensure that self-interested and opportunistic directors can be encouraged to serve shareholder rather than their own interests. Agency theory embodies what Foucault termed a ‘sovereign’ view of power. The problem for shareholder principals is construed in terms of how they can effect their sovereign rights of ownership in relation to self-interested directors. In line with this, much public and academic interest focuses on the negative and punitive exercise of investor power: the forcing out of executives, the votes against pay or contract terms. For Foucault, however, such a view of power misrepresents how power works, which he suggests should be understood in the more positive terms of the production of certain forms of subjectivity.

The existing qualitative research on company – institutional investor relationships has already begun to take these less dramatic and more subtle processes of investor ‘influence’ more seriously, but without engaging explicitly with their significance. Pye (2001), for example, notes a new preoccupation in directors’ minds with ‘strategic focus’, ‘shareholder value’ and ‘corporate governance’. Relatedly, on the other side of the relationship lie not shareholder principals but employee fund-managers managing other people’s money. Barker’s work begins to tease out the different incentives of analysts and fund managers. But these too depend, not upon the exercise of assumed property rights, but rather upon the different forms of visibility to which their conduct is subject. The idea that we want to pursue and bring into focus in what follows is that such normative effects should be taken much more seriously and counted as amongst the most important ‘truth effects’ of the meetings. The meetings advertise and make visible the ideals that must inform both investor and director conduct, and act as a vital relay in the diffusion of the norm of shareholder value within the corporation.

The Context of the Meetings for Directors

It is obvious but nevertheless highly consequential that companies, particularly the FTSE 100 companies where we conducted our interviews, are the objects of intense scrutiny. What is less obvious and what we want to pursue here are the effects of the knowledge of such scrutiny. Movements of the share-price, press comment, and in particular analyst’s commentaries and recommendations serve as a constant reminder for executives that distant others are observing and making sense of their actions, and forming a view of the company as an investment. Such scrutiny immediately sets the company, and the individual executive in a comparative context such that what they are doing is understood in comparison with the actions and success of competitors as well as other sectors. It also advertises a set of values in terms of which such comparisons are made – most notably EPS but also the whole array of metrics such as ROCE, EVA, TSR. – that tell directors what they must be and be seen to be, what is important and not important if they are to attract and retain the attention of investors.

This scrutiny is complicated by the fact that the interests of investors – as well as their ways of knowing – are themselves very varied and, just as importantly, known to be varied. It is understood that the conduct of fund managers is itself framed within a field of visibility of league tables comparing quarterly fund performance and is itself highly incentivized.

Our interviews elicited a variety of rationales on the company side of what they might be seeking to achieve in meeting their major investors. These included creating understanding of corporate facts, promoting shares, understanding concerns in the market place, building understanding of strategy, ensuring an appropriate valuation, creating transparency, building investor understanding of strategy, future direction and the sustainability of earnings, raising expectations, and at times seeking to lower them, and getting feedback. But regardless of such context-specific objectives the metaphor that was repeated in many interviews was that of a ‘picture’. Executives know that investors have formed a certain picture of the company, and are making decisions on this basis. Such distant yet consequential scrutiny is a source of anxiety about whether the company will be seen and liked, and if so whether it will be seen accurately or correctly. It is this anxiety that creates the appetite for meeting investors. The meetings are grasped as an opportunity to influence the content of the picture – to augment, adjust, inform, amend and update the complex and mobile gestalt of company identity that is the basis of investor decision-making. They are an opportunity for an albeit very brief period of ‘co-presence’ with their major investors through which they hope to better understand and influence what is in the fund managers’ minds. By making possible new and more intimate forms of scrutiny, however, the meetings do open up new points of anxiety. Such anxiety was evident in people’s account of the work that is done in advance of the meetings.

Company preparation for the meetings

The very existence of investor relations departments – the allocation of permanent and dedicated resources for such work – itself signals the growing weight of investor perceptions. In these departments the work of preparation is continuous, and involves the progressive rationalisation of what is now seen and worked on as a ‘communications strategy’.

A number of those we interviewed contrasted their current efforts with earlier periods in their companies’ histories when what they now viewed as ‘corporate arrogance’ on the part of the most senior managers led to the complete neglect of investor relations.

> ‘There was a lot of arrogance there. The results were coming through very strongly. There wasn’t a lot of respect from certain members of the board for the analyst and fund-manager community, because they didn’t feel they really understood the business.’

Good performance in this instance allowed directors to act as if they were autonomous in relation to the City, and it was only when business performance began to decline that investor sentiment was discovered to be powerful, and resources were then committed to seeking to ensure that investors did understand the business. Autonomy, it emerged, required conformity to the demands of investors. The following quote describes the same company’s current preparation for meetings.

> ‘In terms of level of preparation, there's an intense amount of preparation, because what we're quite experienced at now is that

> the market listens to everything you say. Therefore we're incredibly careful that what we want to say is said in the right way so it cannot possibly be misinterpreted. That's the first thing and the easy bit for us, although there's a lot of work that goes in, is actually in the presentation itself. The harder bit and the riskier element is clearly the Q&As, … We do an awful lot of work in-house on the Q&As before these events. We have at least two very long sessions, one with the internal people and one with our advisers, and absolutely just run through every Q&A in the house, every Q&A that we think is likely to asked by both the press and by the analysts.'

Preparation here has the quality of a rehearsal for a performance; questions are anticipated and answers rehearsed. Since there are multiple individuals involved in the meetings, sometimes together, sometimes separately, part of the concern is that individuals should be working from an identical script. So as in all disciplinary processes much of the work consists of seeking to anticipate investor wants and then carefully constructing the presentation of the corporate self so as to play to these wants and appear responsive – to make the company attractive to the targeted investor. In the knowledge of meetings to come the interests of the investor are in this way internalised in advance and made to play upon the minds of directors. But the concern here goes beyond a scripting of the messages about company strategy to a concern with the presentation of the qualities of the messengers and their relationship.

> 'I think a lot of studies show that one of the main criteria in making investment decisions is confidence in management, and I think that unless they are able to touch and feel the management, to continue the analogy, that confidence is hard to convey, because otherwise you're down to paperwork and the written statements. As an analogy, and it's a light-hearted one, there was a view some years ago that if you had a beard in the city, you're not to be trusted. But if you look at our chief executive, he has a beard, in fact, a number of our management team do. I must admit I stepped back and looked at that when I came here. I thought we have a new management team here, we are a changing company, we're presenting a new strategy. How seriously can the management team be taken, and I did debate at one point about whether I should ask X (the CEO) to shave.'

These comments illustrate the way in which the current generation of directors are far more aware than their predecessors of the importance of addressing both the informational requirements of investors and of building and maintaining trust with them. By attending to these requirements directors acknowledge that investors have a right to monitor their actions and behaviour. The effects of acknowledging this right are examined next.

The Meetings as Subjection to the Values of Shareholders

Superficially our research on the meetings themselves confirms the findings of earlier studies; meetings are focused on company strategy, on the projected financial implications of this and on the executives themselves. However, in making sense of the meetings we want to point both to the limits of their informational content and conversely to the neglected importance of their disciplinary effects. There are differences, as Holland (1998a) reports, as to the degree to which particular fund managers rely on quantitative and qualitative data. But typically some part of the meeting would be given over to certain technical financial questions. Unlike the sell side, buy side analysts were unwilling to share the assumptions of their models explicitly in meetings, but these could typically be discerned from the focus of their questions. Questions here could be aimed at understanding specific issues, for example pressures on working capital, likely capex needs in the short term, or pension liability; or at probing the discipline of internal systems around, say, the capital allocation process. Executive replies could seek to inform, reassure and at times correct, through suggesting, for example, that it is important that certain (publicly available) information is taken into account by the investor.

Such ‘technical’ questions, however, were typically secondary to a central focus on corporate and business strategy. Though executives would bring a formal presentation with them, this would only be used with new or particularly uninformed investors or where there had been a major corporate change. Otherwise the meeting would move immediately to questions and answers. The questions could probe almost any aspect of strategy depending upon the company and context; for example, they could drill down into the detail of margins on particular product lines, explore sources of risk and growth, probe into the timing and costs of acquisitions or sales, or enquire into R&D or sources of customer loyalty. What executives seemed to be trying to do here was to always work on the margins of investors’ ‘knowledge’. Thus they might seek to explain the timing of a decision, to allow the investors to see why and how current actions should be supported, to explain what differentiated them from their competitors, or to explain why some fears were groundless and other risks should be taken more seriously.

The meetings' focus on explaining and exploring company strategy and its financial implications supports the emphasis that existing studies place on the informational efficiencies that the meetings allow. In principle the value of face-to-face meetings is that they offer the greatest opportunity for resolving what Weick (1995) calls the 'equivocality' of communication – in this instance analyst and fund manager dependence on public written and often retrospectively focused representations of the company's results. The opportunity to question and probe, to qualify, explain and immediately address apparent misunderstandings, together with the rich sensory data of the shared physical context clearly offers the greatest potential for building reciprocal understanding (Giddens 1984; Nonaka and Takeuchi 1995). However, whilst some meetings, for example with particularly well informed analysts or fund managers, clearly came close to this ideal of building reciprocal understanding through dialogue, for the most part our interviews suggested a more constrained, ritual and wary form of communication. There were a number of factors involved here.

The meetings it must be remembered are relatively short – between an hour or an hour and a quarter – and are often conducted in sequence, with the CEO, FD and IR manager spending a morning or a day moving from one meeting to the other. The fund managers typically had no direct commercial management experience and were therefore dependent on theoretical knowledge such as that which might be gleaned through an MBA to interpret the responses of the directors.

Often there seemed to be considerable uncertainty over quite who was involved in the meetings on the investor side. At best there would be continuity of contact year on year but often this was not the case. From a corporate perspective it was good if, in advance of the meeting, they had received a list of questions that the investors wanted to pursue, but again this was relatively unusual and further heightened the uncertainty. Another related source of uncertainty concerned the level of knowledge, and by implication preparation, that directors encountered amongst fund managers, at least in so far as this was signalled by their questions.

> 'You can actually hear a sell-side comment in a sell-side note being repeated to you as a question, and I can tell who it was as soon as I hear it. Rightly or wrongly I always think slightly less of people who do that than the ones who are genuinely thinking about it and genuinely developing their own lines of enquiry.'

Along with these adverse effects of meeting organisation there were of course the important legal constraints on the disclosure of 'price sensitive' information of which both sides were acutely aware and which dictated great caution.

> ‘ We answer their questions to the extent that its basically expanding on information which is already in the market place. We have to be very careful about that, and I’m the only one who answers those sorts of expansionist questions because there a very fine line between giving some people insider information and ...’

But to these organisational and legal constraints upon open dialogue must be added the effects of what both sides know to be the other point of focus within the meetings – the close scrutiny of the conduct and relationships of the executives themselves. A key but unspoken informational content of the meetings is that the executives are being appraised.

> ‘They want to look in his eyes. Particularly with us in the last few years its been about, “Do I trust this person to deliver on what he say?.” They don’t have any more information that anyone else, but I think having met the guy and looked in his eyes, I think on the balance of evidence they probably felt, “I think he can do what he says.” A lot of it is about chemistry. “Do I actually think this guy can turn the business around?”’

The strategic narrative has a shifting relation to the financial reports and at least in the early years of a director’s tenure investors cannot easily look to the figures to confirm the promises or assurances that are being offered. In such times, they are therefore peculiarly reliant on their appraisal of the qualities of the executives which extends beyond the individual to the quality of relationships.

> ‘They’re often looking at the interaction between George and David and forming a judgment about how cohesive the message is, how those two react as a team, and, therefore by inference how the rest of the team reacts. I think their assessment of the sort of personal characteristics of the two of them probably then feeds across into their subsequent view of the rest of the team when they see them at the various events. And I think that then rubs off in their perception of the company.’

Individuals, albeit the most senior managers, here stand in for, literally represent the company, and their behaviour is believed to condition investors’ views of the wider company. Of course the FD and CEO will have share-options and so will benefit personally from a good ‘performance’. The managerial labour market also creates a longer-term interest in protecting and enhancing their individual reputations with investors. But it is only in the context of the face-to-face meetings that investor expectations can play directly upon the bodies of the CEO and finance director. Only in the meetings do they encounter directly their vulnerability to the investors gaze.

Face to face meetings ensure that the qualities of the message and the messengers become inextricably and consequentially entwined. Whilst it is undoubtedly the case that fund managers use the meetings to appraise executives, there is no metric that reliably relates the body language of an executive to future financial performance. In drawing inferences from the minutiae of executive conduct fund managers are at best drawing upon a taken for granted set of prejudices and assumptions as to what constitutes good, credible, trustworthy, etc. Such inferences may of course feed into investment decisions or even come to inform active intervention, but another key effect which has been largely ignored by earlier studies lies in the way that the knowledge of such personal scrutiny, and the effects, both positive and negative, that may flow from it, serves to 'normalise' the executives.

> 'We also very carefully, not as if we're sort of spin doctors, but you've got to position your company quite clearly and in very, very, simple sound bites, very consistently. I've got to say exactly the same words as Bill and Alice has got to say exactly words as me as to basically what our positioning is vis-à-vis the investors. Is it growth or value, sustained, margin expansion, beyond margin expansion, sustained investment? We're not finance acquisition driven. We are organic. You've got to make absolutely certain you get these messages down on a sheet of paper and you make sure you say them about twice in your meeting because you are targeting a sort of investor. So you've got to say to him the sort of thing he wants [to hear] and you listen to him as to what he wants.'

For companies a 'good' meeting will be one where the labour of careful preparation and skilled self-presentation results in investors who seemingly understand the company in a way that is consonant with what the executives are trying to do, and are seemingly happy with the answers given by executives to their questions. But what is easily denied or overlooked in the 'success' of corporate communications is the way in which, through this labour, executives come to transform themselves, their understanding and actions, in the image of the investors' desires. In the rest of the empirical part of the paper we want to briefly sketch some of the principal effects that then flow from such executive subjection.

The Penetration of Shareholder Value – Senior Management

> 'Well I came into this saying I'm value-based. I'm a value-based person. To me therefore its cash that matters and I do believe in transparency and I do believe in consistency.'

From a disciplinary perspective the above account of meetings with fund managers is an account of the production and reproduction of a certain form of subjectivity, expressed here in terms of a self-identification by a finance director of being a 'value-based person'. The meetings serve as a process in which the expectations of fund managers play upon and shape the subjectivity of the finance director. In an effort to meet the desire of the fund managers the finance director seeks to make him or herself into the object of that desire. Ideally, the investor is then able to encounter an FD who is already all they might wish him or her to be.

Although only one finance director went as far as to define their person explicitly in terms of the value-based methodologies that are now pervasive amongst fund managers (see Froud *et al.* 2000), the language of value was everywhere in our interviews. Whilst the concerns and preoccupations of particular investors have to be discerned and met within each meeting, the authority of shareholder value, if not its precise terms, is simply assumed. Autonomy is realised not against but through meeting the demands for shareholder value. But if the actual meetings enact what, at times, is an almost ritual subjection of senior managers to the litany of shareholder value, this act of subjection then becomes a powerful lever for change within the boundaries of the corporation.

> 'That's an incredibly important role because what good IR becomes is almost the voice of the investor, but inside the business. I mean it's quite an influential voice. What will investors think? Will they think that? It's an enormous community out there and your job is to skim all that down into a general view of what the debate is at the time. It carries a lot of responsibility with it. You don't think 'this is what (His Name) thinks', actually, if I say this is what the investor thinks, I'm going to get the outcome I want.'

So if investor sentiment has become an increasing source of uncertainty playing upon the boundary of the corporation then a new power accrues to those who manage that boundary who are now able to speak with all the authority of the investor. Successful negotiation with investors who can affect the destiny of the corporation (and thus the fortunes of employees) bestows prestige on the negotiators and gives them additional power when engaging in organizational politics. However, it was unusual for finance directors to acknowledge that the meetings radically changed corporate strategy although some pointed to the way in which the messages they brought back within the business could be used to condition executive thinking about what could and could not be attempted.

> ‘What I think it does is just galvanize the thinking that there is a concern a general concern, outside the business. It’s helping to amplify what we think inside the business.’

The influence being described here is subtle; external opinion serves to amplify and crystallise internal focus and debate. However, in the course of our interviews individuals also pointed to a wide variety of other effects flowing from the meetings.

One way in which investor pressure can be met is through the use of a purely financial strategy to buffer or shield the organisation from pressure.

> ‘We had about a retail balance sheet that was cash positive and for a retailer, that's quite unusual. The vast majority of our properties are freehold, cash on the balance sheet, quite a high whack probably for a retailer, principally because the business was equity funded, rather than debit funded, and the amount of capital being used to generate the earnings was quite high. So it was financial restructuring. The purpose of it was financial restructuring to bring down the whack, to make the balance sheet more geared, to increase the gearing on the return on equity and return of capital, and indeed, earnings-per-share figures, all of those. That's why we did it, and again. But also, this is very confidential, clearly a slight motivation when we announced that in March was the business really was under an awful lot of pressure to have a recovery strategy. Therefore I think it was important that the investors saw that we were doing something.’

Share buy-backs are one relatively easy way in which a company can be seen to be responsive to investor pressure and give them what they want; in this instance they seemed to be being used to buy time for a more fundamental restructuring of the business to come through. Along with buy-backs our sample of interviews included examples of re-segmentation of the results so that different segments of the business mapped more readily onto the sectoral organisation of analysts. Here the concern seemed to be that only with greater disaggregation would it be possible for analysts to value the business effectively. There were also two examples of elements of a business being de-merged in order to realise a ‘proper’ valuation of component parts. Such changes to the structure of the corporate body to create the visibility that would allow investors to recognise value was perhaps an extreme response to what was a more general pre-occupation, with finding ways in which investors could be enabled to see what managers believed were the actual sources of value in the company. Of course, investor desire is itself unstable and those companies who, for example, had sought to make visible the ‘new economy’ aspects of their business at the time of the tech-stock boom then suffered disproportionately when the bubble burst.

We have already described the importance that managers believed investors attached to seeing ‘the whites of their eyes’. Our interviews suggested a sort of cycle of confidence around senior managers. At its most negative the meetings, or at least feedback from the meetings, would suggest that changes needed to be made to the most senior management of the company.

> ‘When our company wasn’t performing about five or six years ago we started a process of rationalization. The good old English approach, cost cutting, this that and the other, and the board decided that that wasn’t enough and that we needed to have a thorough review of strategy. Part of that process was a recognition internally, that we needed some changes at the top, at senior management level. Also the investment community did actually make it reasonably clear to us, and to me personally we had to handle that. They also made personal comments to our brokers. If the city wants to make a point, its actually the last resort type point, but these points are made, and that basically does warn you you’ve got to do something, and, by and large, you do something in your own time, or we did. Now if you don’t, and I suppose you are arrogant with the fund managers and you don’t take notice, you’re storing up a huge amount of trouble for yourself. I’ve never been in that situation, I mean I’ve been in the situation where we’d already made up our mind that we were going to do something, so it wasn’t too much of a problem.’

A key point here is that the changes, while prompted by shareholder pressure, preceded any pressure on the share price, or market discipline as commonly understood. Instead the discipline is realised in anticipation within the self, or at least is rationalised in a defensive way that presents the self as already wanting what the investor wants.

Senior management succession, whether organic or forced, then provides the opportunity for the investor story to be told anew.

> ‘Fortunately I’ve never had to tweak too much since the first time I came into the job. At that point there was a £2.5bn difference between the analysts’ expectation and the plan. The new CEO agreed that we went out and there was an absolute bloodbath with the share price but we had to do it. There was no way of doing it subtly and we had to do it with the aim in mind of setting the new CEO up as the great white hope, so that was exactly what we did.’

Succession provides an opportunity as it were to wipe clean the slate of expectations, to let the ex-management carry away with them the weight of past sins, and to offer investors a new narrative of hope to be realised by the new team. It is around such succession events that major strategic change is often attempted and our research included at least three examples where the business had undergone major strategic change with the sale of low growth parts of the business.

> We sold £4bn worth of business, which we would define as low growth business. Certainly it affected the market like all these things. They asked us why we’d done it. What’s the logic? This business we don’t see as being able to grow an economic profit, which we require to get into the upper quartile of our sector, and therefore we’re going to have to do that.

A new narrative of recovery needs to be explained and extra efforts would be put then into meeting the investors and explaining the new strategy. But there is then a period of grace when the investor can only wait to see and judge the capabilities of the new team from future results. If recovery is achieved then sentiment shifts to a concern with the longer-term sustainability of growth, which is pursued until strategic logic unravels and the cycle of succession and renewal begins with yet another groups of managers.

Exporting the pressure downwards

> ‘Well, we’ve got a business model that we now tend to use and share with the market, at the macro level. It’s valuable also at the

> micro level. It sort of says, to get 10% earnings growth ; if we can get 2% volume, 2% price mix, with operational gearing, with cash generation (because the margins are at good levels already), that can get us to 10%.. How do we get efficiency? Well, efficiency is very easy. You start off all this by looking at plant efficiency, capacity utilization and so on, but efficiencies, that low hanging fruit, goes after two or three years in my experience. And so what we've done over the last two or three years is we've now, which is pretty anti-culture for us, because we've always been a fairly decentralized organization, is to actually start to think about regional efficiency initiatives. So we've now got a group procurement, we have a global SAP system costing £200m, about to go in the next few months and rolled out around the world. So you actually get this curving of efficiency, optimizing group power, optimizing regional power And that was a cultural change because it is moving the due diligence balance sheets away from the local barons to more centrist control, and that's not an easy thing for an organization to pick up.'

This lengthy quote offers a summary of many of the ways in which, once embraced, the language of shareholder value becomes a rationale for the progressive rationalisation of a business (Lazonick and O'Sullivan 2000; Useem 1993). Cooper and Law (1995) note the potential for representations of the organisation to allow a sort of 'knowing in advance'. The corporate models developed in order to calculate future EPS can then be turned back on the business in order to realise what has already been promised and indeed achieved within the models. In this very literal sense shareholder value can be made to drive the business; reality must conform within its abstract modelling.

One of the principal instruments for driving performance within the companies we interviewed was through widening the use of share-options.

> 'And there is now a much better thread between the investor and the manager. That's my personal belief, certainly. I've been in industry since 1970. There's been a huge sea change with performance and reward programs are clearly geared to investor expectations, EPS growth, and total shareholder return measures. There is no doubt that they are producing a better management mind set, which is quite difficult to get across. I've got quite significant share options, so when the share price goes down by 15% I know what's happened. I just don't sit there and say okay

> the share prize has gone down. It does focus your mind to make decisions recognizing you're dealing with significant wealth, not only in others but always your own. That has been a very beneficial change to the way businesses are run over the last ten years.'

Almost all the companies we interviewed had increased the degree to which remuneration was linked to performance, and considerably widened the number of executives and employees who held options. As with the CEO and finance directors within the meetings, such personal incentives (and sanctions) ease the embrace, and enforce the weight of senior management's demand for shareholder value.

Concluding thoughts

In an earlier empirical exploration of the market for information Barker (1998) pointed to the central importance that both finance directors and fund managers attached to their face-to-face meetings.

> 'For fund managers, formal meetings offer an opportunity to assess the company's strategy and the ability of management, in the light of information from previous meetings as well as the performance record in the report and accounts. The meetings are also perceived to offer a competitive advantage in terms of investment performance relative to rival funds' (1998:16).

The analysis of more recent interviews with finance directors and investor relations managers presented above augments these conclusions in a number of respects. Throughout the empirical analysis we have pursued the theme of the meetings as an exercise of disciplinary power. In this respect the analysis develops Rao and Sivakumar's (1999) suggestion that the meetings serve to acknowledge the property rights of their shareholders, and their right to monitor the performance of managers and to hold them accountable. Many of those that we spoke to implicitly framed their comments within the assumptions of agency theory and conceived of themselves as having an obligation to meet the owners of their business. Such a framing of the meetings within the terms of property rights already acknowledges power as an important dimension of the relationship and meetings. Foucault's account of disciplinary power allows this analysis to be taken much further.

In Foucauldian terms what Barker describes as a market for information can be conceived as a system of visibility to which both fund and corporate managers are subject, albeit in different ways. Both are subject to the powerful perceptions of others and then come to practice power upon themselves and each other. Within the meetings power relations are clearly asymmetrical; it is the CEO and finance director who offer the meetings and travel to meet the fund managers. It is the managers who must give an account of themselves to the fund managers. But rather than insisting on the sovereign power of the shareholder, the disciplinary metaphor suggests these effects are internalised within the subject/managers. From this perspective the meetings serve as a ritual reminder of the interests of shareholders in the company, whose interests thereby achieve a permanent presence in the mind of managers. Some of the managers we met were in this way almost more dedicated to the pursuit of shareholder value than the fund managers they were meeting. At the very least power works in such a way as to ensure that there are strong incentives to present the self as being already what the other desires. The purpose of the meetings is to remind managers that they are accountable, that they are being watched.

Such indeed was the impression we gained of managements' conduct within meetings. The intense preparation and rehearsals, the careful scripting of consistent replies to possible questions, speak both of the anxiety that the meetings induce, as well as of the essentially dramaturgical nature of the encounter. Such careful impression management casts a somewhat different light on the emphasis that has been given in the literature to the informational value of these meetings. In the sea of abstract information one can imagine the attractions on both sides of an encounter with the face of the other. The opportunity to meet with the physical embodiments of either the company or the investor does indeed seem to offer the chance of adding rich contextual information to what are otherwise remote representations of both. But then the meetings are both so infrequent and so important that the potentials for dialogue – for both informing and being informed – that in principle the face-to-face encounter offers are for the most part foreclosed. Valuation models are not disclosed and are in any case variable between investors. Inferences are drawn but can only be channelled back in post meeting feedback. Carefully crafted sound bites along with the fear of unfair disclosure ensure that managers stay on script. The informational content of these meetings is no more than the exchange and comparison of representations of the company and projections of possible futures. For a significant part of the cycle of executive reputation much depends upon the qualities of the narrative that has been constructed. Only towards the end of the cycle can the narrative be unambiguously compared with the results.

The importance attached to seeing the ‘whites of the eyes’ of executives as a means of evaluating the future potential of the company should be understood primarily, we have suggested, in terms of its disciplinary impact. The effectiveness of such personal scrutiny depends not so much on what is seen – the informational value of the meeting – but rather on the looking and the effects of knowing that one is being scrutinised, for it is this that ensures, and gives confidence, that the other will seek to be what you desire. In this respect shareholder activism in addressing issues of under performance in particular companies should be seen, like any exclusion, as primarily serving to advertise the norms of acceptable corporate conduct and performance to the wider community.

The disciplinary metaphor also allows the meetings between companies and fund managers to be seen in a wider context than the market for information. Accounting representations of the corporation present it as an entity as if it had an inside and an outside. The disciplinary metaphor points to the continuities of conduct both within and beyond the corporation as well as to how these continuities are realised. What seems in the meeting to be an act of subjection by management to investor desires, then turns out to be hugely enabling of executive authority within the organisation. The meetings from this perspective add the force of imperative to the layers of hierarchical accountability within the company. The finance director and investor relations manager accrue power both from being seen to be able to manage the uncertain expectations of investors and from then being able to speak on behalf of the ‘owners’ to their colleagues within the business. The mirror of shareholder value then becomes the means whereby new demands can be made upon the corporate body, enhancing the influence both of the finance function and corporate managers more generally.

The mirror provides the standards and motives through which real productive relationships are then restructured to realise the visible performance that is desired. Our interviews offered numerous examples of the profound restructurings of businesses that have been driven and pursued in the name of realising value. Share buy-backs, de-mergers, sales and acquisitions all evolve as strategies that are driven and rationalised in terms of the financial value that they may realise into the future. At an individual level much resistance is foreclosed through the widespread use of share-options to ensure that senior managers understand the consequences of their action for the share-price. Within agency theory the self-interested opportunism of managers is treated as a given of human nature, and the remedy for the principals is conceived of in the same terms as the problem (Fama 1980). Self-interested opportunism can only be remedied through threats and incentives to self-interest. The conscious proliferation of share-options within firms suggests a more complex explanation in which self interested opportunism as a form of subjectivity is better understood as an effect generated in the service of realising shareholder value (Roberts 2001).

In his book ‘ The end of shareholder value’ Allan Kennedy writes:-

> ‘Suddenly managers everywhere were making decisions solely on the basis of whether the outcome would spur their stock prices even higher. If core cost cuts were called for, so be it, whatever the long-term consequences. If internal costs were slow to come out, turn to your suppliers and demand dramatic reductions in their costs as a price of continuing to do business with you. If cutbacks in research and development were necessary to make the numbers, then cut back R&D. If those steps failed to produce the desired outcome in the stock market, take the money that might have been invested in building the business for the future and use it to buy back stock on the market. And if all that still did not drive up the stock price, cook up another blockbuster deal to get Wall Street’s attention.’ (Kennedy 2000)

Post the bursting of the stock market bubble and the scandals of Enron and WorldCom it has become clear that the disciplinary mechanisms and effects that have been the subject of this paper turned out to be all too potent in their effects on the minds of corporate executives. With the wisdom of hindsight it was these disciplinary effects rather than the exchange of neutral information that turned out to be the most important, albeit unintended effects of the pursuit of shareholder value.

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