The Financialization of the US Forest Products Industry: Socio-Economic Relations, Shareholder Value, and the Restructuring of an Industry

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This paper draws on theories of socio-economic change stemming from political economy and economic sociology to examine the financialization of the US forest products industry. I argue that the widespread adoption of shareholder value norms of corporate governance constitutes one of the core ideological foundations for explaining how the financialization of non-financial firms was accomplished. At the same time, I suggest that economic sociologists' emphasis on the role of shareholder value ideology tends to obscure the concrete realities of contemporary capitalism and the socio-economic relations that underlie managerial conceptions of control. In this paper, I adopt a dialectical methodology that works at multiple levels of abstraction in order to highlight the internal relationship that exists between managerial conceptions of control and the material processes of capital accumulation. Using data mined from corporate proxy statements, I show that increases in concentrated stock ownership among institutional investors and the use of incentive-based compensation—among other important factors—underlie the adoption of shareholder value strategies in the US forest products sector. I then demonstrate how the pursuit of shareholder value reshaped the US forest products in the interests of the financial community while undermining long-term stability of the industry and the people who depend on it.

Introduction

In recent decades, the changes taking place in the financial sphere of the economy have become defining features of the broader transformations of the capitalist system. Collectively, these transformations are referred to as "financialization." At its core, financialization refers to the growth of financial profits relative to productive profits in mature capitalist economies (Arrighi 1994; Krippner 2005; Foster and Magdoff 2009). Yet, financialization is a multifaceted phenomenon with structural, institutional, and ideological dimensions that are internally

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related and mutually reinforcing. In this paper, I draw on theories of socio-economic change stemming from political economy and economic sociology to reveal how financialization became a critical driver of change in the US forest products industry. More specifically, I focus on the relationship between financialization—conceived as a structural dynamic arising from particular contradictions in the development of historical capitalism (Arrighi 1994; Foster and Magdoff 2009)—and its ideological manifestation in the widespread adoption of the shareholder value conception of corporate governance (Useem 1993; Fligstein 1990, 2001; Davis and Thompson 1994; Lazonick and O'Sullivan 2000). I argue that the financially inspired discourse of shareholder value was instrumental in legitimating and rationalizing managerial decision-making that substantially transformed the US forest products industry.

The forest products industry is an important case study for a number of reasons. First of all, it is a mature industry that has been a vital component of the US economy for well over a century (Robbins 1982). As of 2008, the value of the industry's shipments exceeded $266 billion, which accounts for almost 5 percent of the total shipment values in the nation's manufacturing sector (US Census Bureau 2008). Second, despite substantial layoffs in recent decades, the forest products industry continues to be an important source of employment, employing nearly 736,000 people across the United States, or roughly 6 percent of all US manufacturing employment (BEA 2010). And finally, the forest products industry provides an important case study because, as a natural-resource-based industry, it seems as far removed from the seemingly abstract processes of finance as one could imagine. Contemporary research on "production in nature" has tended to highlight the particular ways in which nature shapes and/or limits production in natural-resource-based industries (see Bunker 1985; Prudham 2005). While not arguing against the validity of their insights, the present paper highlights how a particular natural resource-based industry continues to be shaped by the inexorable processes of capital accumulation. In turn, the reality of production in nature heightens the irrational impulses of contemporary finance capitalism and its impacts on what has always been a highly cyclical and unstable industry.

By examining one non-financial corporate (NFC) sector, this paper highlights the dialectical relationship that exists between financialization and the ideology of shareholder value in corporate governance.[1] This approach draws upon the critical-dialectical Marxian tradition that begins with a conception of a totality, or what Marx often referred to as an "organic whole," and then abstracts from this totality in order to examine particular empirical phenomena. The dialectical method also works at different levels of generality, depending on the empirical phenomenon under investigation. Here, we are concerned with shareholder value ideology and its role in rationalizing and legitimating managerial decision-making in the US forest products sector. Yet, we cannot begin our analysis within the confines of corporate boardrooms and managerial ideologies. In order to properly situate these phenomena, we must first theorize the broader political economic structures in which they operate, namely the capital accumulation process.

Thus, I begin with a discussion of financialization in general, before lowering my level of abstraction to analyze organizational change in the modern corporation. Using data gathered from corporate proxy statements, I show that increases in concentrated stock ownership among institutional investors and the use of incentive-based compensation—among other important factors—underlie the adoption of shareholder value strategies in the forest products industry. I then proceed to show how the discourse of shareholder value was used to rationalize and legitimate a number of transformations in the forest products sector. The paper concludes with a summary of the findings and a discussion of the benefits that stem from conceptualizing shifts in corporate governance within the broader context of historical capitalism.

Financialization and Non-Financial Corporations

As a concept, financialization has been employed to describe a wide array of phenomena, ranging from the dynamics of international financial institutions (Soederberg 2005) to the political economy of everyday life (Martin 2002). Epstein's (2006) definition is one of the most commonly cited: he defines financialization as the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (3). This broad definition highlights the multifaceted ways in which financial interests have gained control over the political and economic institutions of contemporary society. However, Epstein fails to capture the essential socio-historical features of this process, namely the capital accumulation process, which both critics and champions of capitalism agree is the engine that drives economic change in modern society.[2] Therefore, as a first approximation, I define financialization as a form of accumulation in which profits increasingly accrue through financial, rather than productive, activities (see Magdoff and Sweezy 1987; Arrighi 1994; Krippner 2005; Foster and Magdoff 2009).

Despite some important differences, most political economists theorize financialization as an outcome of the structural crises of global capitalism that emerged in the early 1970s (Arrighi 1994; Epstein 2006; Foster and Magdoff 2009; Duménil and Lévy 2013). For example, Foster and Magdoff (2009)—building upon the earlier work of Magdoff and Sweezy (1987)—argue that financialization developed in response to the stagnation tendency of mature capitalist economies that surfaced in the early 1970s. In their analysis, financial accumulation served as an outlet for surplus capital that could not be reinvested into more traditional (i.e., productive) forms of capital accumulation. Others, such as Arrighi (1994), argue that financialization is a cyclical phenomenon related to a decline in the profit rate that accompanies the rise and fall of hegemonic states in the historical development of the capitalist world system. A thorough discussion of these debates cannot be taken up here; importantly, however, these theories share a common methodological approach that situates financialization within the context of historical capitalism, conceived as a totality.[3]

There are three closely related advantages that stem from theorizing financialization in relation to the development of the capitalist system as a whole. First, we avoid the tendency to abstract financialization from the structural dynamics of historical capitalism and its endemic contradictions. For example, this approach provides insights into what may be unique about financialization taking place in mature capitalist economies (Foster and Magdoff 2009), or how it relates to the previous periods of financialization (Arrighi 1994). Second, by explicitly theorizing financialization as a response to a specific crisis, we can better understand the logic that underlies its development. Financialization was neither a universal nor a random occurrence; it emerged because it proved to be the most viable means of overcoming particular socio-economic contradictions developing during the early 1970s. Third, and perhaps most importantly, we are better positioned to understand the question of who benefits from these processes. Financialization produced both winners and losers. By focusing on the socio-political outcomes of these processes, we are best able to discern the various interests and conflicts involved in these processes, whether they are between owners and workers or shareholders and managers.

Theorizing the whole—its fundamental relations, structures, and processes—is the necessary precondition for an analysis of its constituent parts. Greta Krippner (2011, 13) cautions, however, that there are particular limitations to analyses of financialization that focus on the dynamics taking place in the capitalist system as a whole. Krippner fails to recognize that the theoretical conceptualization of a totality marks the beginning of an empirical investigation, not its culmination. From this premise, analysts must proceed to abstract particular elements under investigation in order to examine their development in relation to the totality. In the current context, we are concerned with the modern corporation and the socio-economic relations embodied in its institutional structure.

There is a small but expanding body of research examining the relationship between financialization and non-financial corporations (see Orhangazi 2008; Krippner 2005; Tomaskovic-Devey and Lin 2011). Much of the literature is concerned with detailing the effects of financialization on corporate profit rates and the distribution of those profits. That is to say, their focus is on capital flows—in terms of both income, savings, and investment and the distribution of surpluses. This "accumulation centered" approach to changes in NFCs reveals a number of interesting aspects of corporate change in recent decades. For instance, the financial assets of NFCs have grown considerably, both in absolute terms and as a percentage of tangible assets (Orhangazi 2008). As one would expect, the growth of financial assets produced a rapid rise in the financial incomes of NFCs over the past three decades (Krippner 2005; Tomaskovic-Devey and Lin 2011). Recent research also links the financialization of the firm to the rapid increase in income inequality in recent decades (Lin and Tomaskovic-Devey 2013).

Research has also shown that during the financialization period there was a substantial increase in the outflow of corporate profits (Orhangazi 2008; Grullon et al. 2011). The two primary means of distributing earnings to shareholders are through dividend payments and stock buybacks. In recent decades, both increased; however, the use of stock buyback has become the preferred option (Grullon and Michaely 2002).[4] The level of capital outflow taking place in corporate America is astonishing. According to Lazonick (2013, 497), over \$0.90 of every dollar of income earned by large US corporations was returned to shareholders during the first decade of the twenty-first century. This high payout ratio is indicative of the short-term perspective of institutional investors, who tend to prefer high shareholder returns rather than have those profits sunk into long-term capital investments.[5]

Financialized firms tend to rely on debt financing, as opposed to retained earnings, for investments. Shareholders generally prefer debt financing over issuing equity because debt tends to maintain the value of their holdings by not diminishing stock prices or diluting earnings (Fligstein 2001). Rising debt is a pronounced feature of a financialized economy. Although debt rose most significantly in the financial sector, it also increased in all other sectors of the economy (private, corporate, and public) (see Foster and Magdoff 2009).

A handful of studies have examined the effects of financialization on particular industries (see Froud et al. 2002; Aschoff 2010; Baud and Durand 2012; Burch and Lawrence 2009; Jones and Nisbet 2011). However, despite this growing body of research, there continues to be significant confusion about exactly how the financialization of the firm was accomplished. Most sectoral analyses of financialization do not account for the socio-economic changes taking place within the firms themselves and the shifting norms of corporate governance that both legitimate and rationalize corporate transformations. In the following section, I provide a critical overview of the literature on managerial ideologies, highlighting both the pitfalls and benefits of recent research on the rise of shareholder value ideology in corporate America.

Managerial Ideologies and Shareholder Value Management

Explaining changes in the modern corporation has long been a central issue for economic and organizational sociologists. Berle and Means's (1967[1932]) thesis that the diffusion of stock ownership left control of the corporation in the hands of bureaucratic managers became the foundation for early theorists of economic and organizational sociology. This observation led many analysts of "managerial capitalism" during the postwar era to largely abandon the Marxian emphasis on capital accumulation and class conflict for Weberian approaches that focused on bureaucratic relations between managers and workers (Davis and McAdam 2000). What followed was a protracted debate about "who controls the corporation," and a number of divergent takes on the social and economic functions of the Giant Corporation (Chandler 1977; Mintz and Schwartz 1985; Kotz 1978).

Economic sociologists of the postwar era also began theorizing the constitution of what Bendix (1956) called "managerial ideologies." Building off Berle and Means's thesis of an autonomous managerial class, theorists began to ponder the "interests" of this managerial class. This "psychologizing" tendency, as Baran and Sweezy (1966) described it, led analysts to a series of fanciful conclusions. Perhaps the most notorious was the widespread belief that the profit motive had ceased to be the overriding concern of managers (see Kaysen 1957). The idea—which was widespread at the time—that corporate managers were no longer concerned with profits was directly related to the failure of analysts to appreciate the material realities of mature capitalist societies. The separation of ownership from control was a fact, but there was no justification for concluding that mangers were any less concerned with profits than owners. The profit motive was still very much alive in large corporations; what had changed was the pattern of accumulation associated with large oligopolistic firms and the objective requirements of corporate, or monopoly, capitalism. As Baran and Sweezy (1966, 44) explained, the rise of the modern corporation marked "the institutionalization of the capitalist function," not its transcendence.

In more recent years, economic sociologists developed more dynamic theories of corporate behavior that seek to ground managerial decision-making within the structure of relations among large corporations and the state. These perspectives build on the notion of the embeddedness (Granovetter 1985) of economic actors and seek to explain corporate behavior in reference to their organizational fields (DiMaggio 1985). Neil Fligstein, in particular, has developed a "political cultural" approach that seeks to understand managerial decision-making in terms of "long-term shifts in the conception of how the largest firms should operate to preserve their growth and profitability" (Fligstein 1990, 2). The premise of Fligstein's theory is that the assumptions and priorities of corporate managers—what he refers to as "conceptions of control"—are ephemeral in nature; that they operate for a definite period of time, only to reach a particular barrier (most often a decline in profits), after which they are replaced by another (Fligstein 1990, 2001).

In recent decades, corporate managers have come under the sway of a "shareholder value conception of control" that measures corporate success primarily in terms of shareholder returns (Fligstein 2001; Lazonick and O'Sullivan 2000; Davis 2009). According to Fligstein, shareholder value conceptions of control emerged in response to the economic crises of the 1970s. More specifically, Fligstein (2001, 147–48) contends that this crisis was primarily due to growing competition from abroad, particularly from Japan, along with the general economic slowdown coupled with high inflation, or stagflation. In response to these changes in the macro-economic environment, managers sought out solutions to their economic malady. Here, Fligstein urges us "to consider the role of culture in framing the possibilities for strategic action." He continues:

> for actors to undertake new forms of action, they must decide to rethink their interests, develop a plan to operationalize those interests, and have the power to enforce that view. Culture comes into play to provide actors with a cognitive frame that offers solutions to the problem of strategic action. (2001, 148).

Thus, Fligstein, as well as others, implores us to think about shifts in managerial orientation as a cultural movement that arises in response to the changing condition in their relevant fields of action (Fligstein 2001; Davis and Thompson 1994). The shareholder value conception of control was then linked to a number of managerial strategies, including increased mergers and acquisitions, selling off unrelated product lines in order to focus on "core competencies," financial gimmicks such as stock buybacks, and downsizing of the labor force (Fligstein and Shin 2007).

Some, particularly Marxists, might be quick to point out that there is nothing particularly novel about capital's tendency toward concentration and their desire to minimize labor necessary for production—and they would be correct. However, Marxists would be remiss to dismiss the role of shareholder value ideology outright. Doing so precludes them from appreciating how the discourse of shareholder value was used to both legitimate and rationalize managerial strategies that were—and still are—integral to the financialization process, and capitalist development more generally (Ezzamel, Willmott, and Worthington 2008). That is to say, it is important to recognize that the structural processes of financialization are mediated by a host of organizational and cultural factors (Lapavitsas 2011).

Economic sociologists have done much to advance our understanding of corporate institutions and managerial behavior by drawing our attention to the ephemeral nature of corporate structures and managerial orientation, thus providing valuable insights into the ideological constraints of actors embedded within definite social relations. But, as Fligstein presciently notes, "The theoretical difficulty is deciding *what that embeddedness consists of*" (2001, 145, emphasis added). I suggest that corporate managers continue to be embedded in corporate structures that operate within the objective constraints of ongoing capital accumulation. Introducing organizational complexities, such as managerial conceptions of control, requires that we move to a lower level of abstraction in order to analyze how institutional actors reflect (and contort) the broader financialization process. At this level of abstraction, we can more readily incorporate Epstein's (2006) definition of financialization, which focuses on the increasing role of financial motives and financial actors in contemporary society.

There are two fundamental components of the relationship between shareholders and managers that have been linked to the financialization of NFCs (Widmer 2011). First is the increasing concentration of stock ownership by institutional investors that occurred following the liberalization of capital markets in the 1980s. The growth of institutional shareholdings reversed the trend toward increasingly dispersed stockholdings that was associated with managerial capitalism of the postwar period. By 2012, institutional investors owned roughly 75 percent of all outstanding stock in the 1,000 largest firms in the United States (Davis 2013). This gave institutional investors a substantial amount of influence on corporate boards and helped steer managerial priorities toward the interests of the shareholder (i.e., financial) community. The second transformation took place in the compensation packages of corporate managers. Following the prescriptions of agency theory (Jensen and Meckling 1976), corporate boards increasingly turned to incentive-based compensation packages, consisting of stock options and bonuses that tied executive pay directly to the company's stock performance (Bebchuk and Grinstein 2005). This practice increased managers' direct personal interest in adopting the shareholder value conception of control. Together, these mutually reinforcing processes of financialization point to a "convergence" of interests between shareholders and management (Widmer 2011, 672). Or, in Marxist terms, corporate managers increasingly became owners themselves and in the process largely dissolved whatever distinctions, however meaningful, that once existed between these two groups.

In what follows, I examine how these processes played out in the US forest products industry from the 1980s onward. I begin with an analysis of stock ownership and executive compensation in order to show how the socio-economic relationship between shareholders and managers was altered over the course of recent decades. I then examine how the discourse of shareholder value was increasingly adopted by managers in the US forest products industry beginning in the 1990s and continuing into the present. The result was a radical transformation of the US forest products industry that included a sustained rise in shareholder returns, made possible by rising debt, a large-scale merger movement, and a series of restructuring programs that included the divestiture of millions of acres of timberland and the loss of employment for hundreds of thousands of workers.

Ownership and Control in the US Forest Products Industry

The US forest products industry is highly complex and multifaceted. In general, the forest products industry refers to all industries that rely on the nation's timberlands for raw materials. In this paper, however, I focus on the two primary sectors of the US forest products industry: the wood products and paper products sectors. Within these two sectors, there are a wide of products and markets, but in general they are dominated by a handful of large, vertically integrated corporations that often have operations in both wood and paper sectors (Ellefson and Kilgore 2010).

In the following section, I analyze two critical shifts that took place in the socio-economic relationship that exists between shareholders and managers. Using data mined from corporate proxy statements, I examine change in both stock ownership and executive compensation over the course of the financialization period. As stated earlier, the origins of financialization are rooted in the accumulation crisis of the 1970s. Yet, both financialization and the emergence of shareholder value ideology were emergent properties of a process that took decades to develop. The process of financialization did not really take off until after the deregulation of financial markets in the 1980s, and it was not until the 1990s and early 2000s that these dynamics became fully developed. Therefore, I gathered data from corporate proxy statements published both prior to (1980) and at the height of financialization (2005) to observe the relevant changes in the relationship between shareholders and managers.[6]

Institutional Investors and Concentrated Stock Ownership

The question of how much stock ownership is necessary to exert control and exactly how control is exercised is a subject of ongoing debate (see Holderness 2003). A common threshold used by researchers is any entity that has 5 percent ownership of a given firm's stock, or what is commonly referred to as a "blockholder" (Holderness 2003; Barclay and Holderness 1991). US firms are required by federal law to disclose all entities that own 5 percent or more of their total outstanding stock in annual proxy statements, making this the logical starting point for an examination of concentrated stock ownership.

Stock ownership in the US forest product firms, like most large publicly owned corporations during the postwar era, was relatively dispersed, with few firms having significant concentrations of stock ownership (Ellefson and Stone 1984). As shown in table 1, only five of the leading firms had a single blockholder. Two of these were family trusts that held investments on behalf of wealthy families. Boise Cascade's largest shareholder, Fayez Sarofirm & Company, was an investment firm run by the billionaire Fayez Sarofirm, and the remaining two blockholders

Table 1. Concentrated Stockholdings in Top 10 Forest Product Firms (1980)

Company and principal stockholder	Percentage of stock owned
International Paper[a]	
Georgia-Pacific[a]	
Weyerhaeuser	
Weyerhaeuser Family Group	9.8
Champion International[a]	
Boise Cascade	
Sarofim (Fayez) & Company	6.5
Kimberly-Clark	
National Detroit Corp.	5.1
St. Regis[a]	
Crown Zellerback	
Bankers Trust New York Corporation	8.2
Scott Paper	
Bronfman Family Interests	20.5
Mead Corporation[a]	

Source: Corporate proxy statements (1980).
[a]No blockholders listed.

were banks that have since been acquired by other banks. Based on these numbers, there is little evidence to suggest that a significant concentration of stock ownership exists for any institution to exercise a significant amount of control over management.

By the early 1980s, institutional investors were already becoming a major ownership category in the US forest products industry (Ellefson and Stone 1984). At the time, however, few institutional investors held large block shares in any particular firm. The tendency was instead for institutional investors to own small amounts of stock in many different firms. J. P. Morgan Company, for example, owned stock in 17 different forest product firms, but few of these holdings exceeded 3 or 4 percent of any single company. At the time, Ellefson and Stone (1984) predicted that the forest products industry, following national trends, would see an increase in company stock owned by institutional investors.

As it turns out, Ellefson and Stone's (1984) prediction was correct: over the course of the next two decades, the stock ownership patterns in the US forest products industry underwent a radical transformation, led by the growth of institutional stockholdings. As shown in table 2, by 2005, nine of the top 10 forest product firms had more than one blockholder; the sole exception was Plum Creek, which is structured as a Real Estate Investment Trust (REIT). The majority of firms listed as blockholders are investment management firms (IMF), or insurance companies, which tend to promote shareholder value management. On average, blockholders controlled over 30 percent of all stock in the leading forest product firms.

Table 2. Blockholders in Top 10 Forest Product Firms (2005)

Company and principal stockholder	Blockholder type	Percentage of stock owned
International Paper		
Capital Research and Management Company	IMF	11.9
State Street Bank and Trust Company	IMF	6.6
Lord, Abbet & Co.	IMF	5.25
Weyerhaeuser		
Capital Research and Management Company	IMF	13
Wellington Management Company, LLP	IMF	6.3
Smurfit-Stone Container		
AXA Financial Inc.	Insurance	16.6
Wellington Management Company, LLP	IMF	12.91
FMR Corp.	IMF	12.1
MeadWestvaco		
AXA Financial Inc.	IMF	9.4
Capital Research and Management Company	IMF	7.7
Temple-Inland		
Capital Research and Management Company	IMF	12
Wellington Management Company, LLP	IMF	6.5
Bowater		
Massachusetts Financial	IMF	10.9
PEA Capital LLC	IMF	9.7
Franklin Resources, Inc.	IMF	8.9
Wellington Mgmt.	IMF	8.1
T. Rowe Price	IMF	7.2
Louisiana Pacific		
Barclays Global Investors, N.A.	IMF	11.11
Mellon Financial Corporation	IMF	5
Greif Brothers		
Michael H. Dempsey	Individual	51.44
Robert C. Macauley	Individual	9.4
Virginia D. Ragan	Individual	5.4
Mary T. McAlpin	Individual	5.3
Packaging Corp of America		
Madison Dearborn Partners, LLC	Private Equity Firm	41.1
FMR Corp.	IMF	7.7
Iridian Asset Management LLC	IMF	5.1
Plum Creek[a]		

Source: Corporate proxy statements (2005).
[a]No blockholders listed.

In addition to the considerable change in concentrated stockholding among individual institutional investors, there was also a dramatic increase in the percentage of all outstanding stock owned by institutional investors. Table 3 lists the percentage of stock held by institutional investors for the 10 leading forest product firms in 2010. Remarkably, institutional investors had come to control over 80 percent of all outstanding stock in eight of the top 10 firms.[7] This figure is slightly higher than the average institutional ownership share, which Davis (2013) calculates at 75 percent for the largest 1,000 firms in the United States.

By 2010, the level of concentrated stock ownership in the US forest products industry was reaching new heights. Control over large shares of the industry was now held by a single financial institution: Blackrock Inc. Founded in 1988 as an asset management company, Blackrock grew quickly through a series of acquisitions to become the world's largest and most powerful institutional investor, controlling over $3.5 trillion assets in 2010. Included in Blackrock's vast portfolio is a sizable ownership share in seven of the top 10 US forest product firms: International Paper (8.6 percent share of stock), MeadWestvaco (15.4 percent), Weyerhaeuser (5.9 percent), Domtar (7 percent), Temple-Inland (10 percent), Packaging Corp of America (7.7 percent), and Plum Creek (6.3 percent).[8] The ability of a single institution to gain such overwhelming control over an industry is a striking example of how the ownership structure of corporate America has changed in recent decades. Furthermore, it is a concrete example of how financial interests were in a position to exert influence over management in the forest products industry.

From Fixed-Income to Incentive-Based Executive Compensation

Changes in the ownership structure of the forest product firms were not, in themselves, sufficient for changing managerial priorities. Additional measures were needed for managers to internalize the interests of the financial community as

Table 3. Percentage of Stock Held by Institutional Investors for Given Firms

Forest products firm	Percentage of stock held by institutional investors
International Paper	82
Mead Westvaco	84
Smurfit Stone (Rock Tenn)	84
Weyerhaeuser	81
Domtar	87
AbitibiBowater	N/A
Temple-Inland	84
Grief Inc.	88
Packaging Corp. of America	88
Plum Creek	66

Source: Mergent Online (2012).

their own. As prescribed by agency theorists, the primary means to align managers with the interests of shareholders is to alter their compensation packages in a way that ties their own remuneration to how effectively they maximized shareholder value (Jensen and Murphy 1990). This alignment became increasingly evident in the US forest products industry.

By 1980, managers in the forest products industry were already generating substantial portions of their income from stock options and other forms of incentive-based compensation. As shown in table 4, three of the top firms' chief executive officers (CEO) received over half of their income from incentive-based compensation. Most CEOs, however, continued to receive the majority of their income from salary and bonus payments.[9] By 2005, there was a significant shift in the compensation packages of top executives. At this point, CEOs in eight of the top 10 firms received the majority of their income from incentive-based compensation. On average, incentive-based compensation rose from 31 percent in 1980 to 59 percent in 2005.

The growth of incentive-based compensation packages, consisting of large bonuses and stock options, was a critical factor for realigning the interests of managers toward those of their shareholders. By tying executive compensation to the firm's stock performance, a firm's board of directors gave managers a personal interest in maximizing shareholder returns. In this sense, the spread of shareholder value ideology among corporate managers cannot be said to be a simple case of increased shareholder control over managerial decision-making, but is more appropriately understood as a situation in which the interests of managers *became* the interests of shareholders.

The growth of concentrated stockholdings among institutional investors and the expanded use of incentive-based compensation packages were critical, though by no means the only, factors in explaining the proliferation of shareholder value

Table 4. Incentive-Based Compensation in the US Forest Products Industry in 1980 and 2005

1980		2005	
Top 10 companies	% of incentive-based compensation for top executive		Top 10 companies
International Paper	66	67	International Paper
Georgia-Pacific	55	57	Weyerhaeuser
Weyerhaeuser	27	55	Smurfit-Stone
Champion	37	63	MeadWestvaco
Boise Cascade	52	61	Temple-Inland
Kimberly-Clark	28	50	Bowater
St. Regis	26	73	Louisiana-Pacific
Crown Zellerback	4	21	Grief Brothers
Scott Paper	12	56	Packaging Corp.
Mead	1	86	Plum Creek
Average	31	59	**Average**

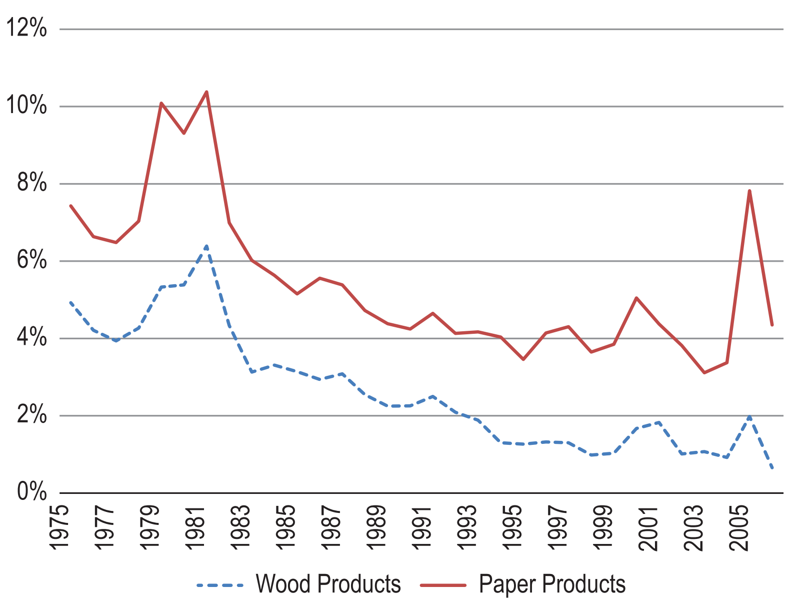
ideology. In the following section, I examine the effects of this realignment on managerial decision-making in the US forest products industry. The adoption of the shareholder value conception of control did not occur overnight, but emerged over the course of the 1990s as the processes of financialization spread to various sectors of the economy.

The Financialization of the US Forest Products Industry

The early 1990s were a pivotal moment for the US forest products industry for a number of reasons. Most notable was the rapid increase in competition stemming from the effects of neoliberal globalization (Marchak 1995). The availability of large virgin stands of timber and the faster-growing cycles of tropical timber, combined with cheap land and labor, led to a rapid increase of imports into the United States. These factors, along with an excess of production capacity during the late 1980s, began to take its toll on industry earnings. By the mid-1990s, it was becoming increasingly clear that the industry was falling out of favor with institutional investors (Yin et al. 1998).

Yet, the forest products sector did not turn to direct financial accumulation in order to overcome their economic stagnation. As shown in figure 1, financial profits in the forest products industry actually declined over the financialization period.[10] This would lead some analysts to argue that these industries were not, in fact, financialized. I argue that this is a narrow interpretation of financialization that fails to appreciate the multifaceted nature of the process. The financialization of the US economy took many forms. In many cases, firms directly engaged in financial forms of accumulation as a means to boost declining profit rates. In other instances, such as the forest products industry, financialization took on a more qualitative form as external financial interests reshaped the socioeconomic relations and institutional environment in which firms operate.

Figure 1. Financial profits as a percentage of total profits in US forest products industry



Source: Lin and Tomaskovic-Devey 2013.

The financialization of the US forest products industry began during the hostile takeover movement of the 1980s (Gunnoe 2012). During this decade, firms in the forest products industry were widely targeted, causing managers to pay increased attention to their firm's stock price relative to their underlying assets. The result was a steady shift in managerial decision-making that saw managers increasingly adopt strategies associated with the shareholder value movement. In this section, I highlight three overlapping aspects of these changes: first is the increased returns to shareholders in the form of stock buybacks and dividends; second is the large-scale merger movement that spread across the industry during this period; and third is the general restructuring of the industry that followed this merger movement. Collectively, these processes were integral to the broader financialization of the forest products industry.

Stock Buybacks, Dividends, and Debt

In an era of diminishing profits, managers in the US forest products industry increasingly turned to stock buybacks in order to boost their firms' share price. By purchasing their own shares on the open market, managers reduced the number of shares held by the public and thus increased the value of the firm's share price. This method is favored in industries where there are few opportunities for internal growth and serves to artificially increase share price, which serves the interests of both managers and investors (Grullon and Ikenberry 2000).

The US forest products industry is a mature industry with a chronic tendency toward excess capacity and unstable prices (Gunnoe 2012). A spending spree during the late 1980s left the industry with a severe problem of excess capacity and a glutted market when the US economy entered into recession in the early 1990s. With limited room for investments into capacity expansion, managers began to focus primarily on increasing shareholder returns. Evidence shows that stock buybacks increasingly became the preferred channel for distributing earnings back to shareholders. In 2001, an analysis of stock buybacks in the US paper industry found that of the 25 US paper companies surveyed, only three lacked a stock repurchasing program, whereas a decade ago just a handful of companies had such a program (Connelly 2001).

Many firms often used cash from large asset sales to finance stock buybacks. For example, in 1994, Kimberly-Clark announced that it would use the proceeds from the sale of its Newsprint mills to fund a stock repurchasing program (Oppel 1994). Other companies, such as Williamette, Boise Cascade, and MeadWestvaco, used the proceeds from their sale of timberland to finance large stock buybacks aimed at increasing returns to shareholders. Commenting upon the announcement of a $400 million stock buyback program following the sale of their timberlands, the MeadWestvaco chairman and CEO explained that "[w]e are delivering on our commitment to return to shareholders the excellent value we generated from these forestland sales. We expect to continue to drive shareholder value by generating sustainable earnings and cash flow growth" (MWV 8-K 2007). With limited opportunities for internal investments, managers found stock buybacks to be one of the few options available for buoying their firms' share price.

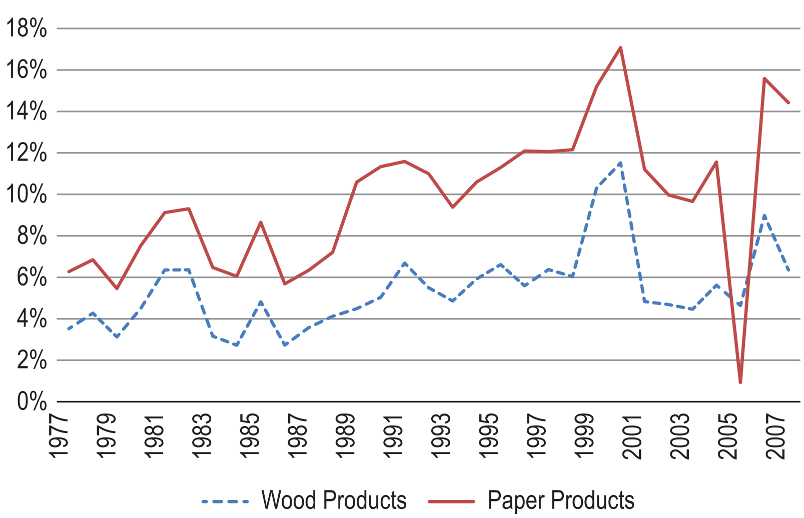
Over the course of the financialization period, stock buybacks replaced dividend payments as the preferred means of increasing returns to shareholders (Grullon and Michaely 2002). In the forest products industry, however, dividends continued to be an important means of funneling capital back to the financial community. Figure 2 shows total dividends as a percentage of value added in both the wood and paper product sectors.[11] The rate of dividend payments in both sectors grew over the course of the past several decades. In the paper sector, the ratio of dividends to value added remained below 10 percent for most of the 1980s, but by 1990, when the forest products industry began to stagnate, the payout ratio continued to climb, staying above 10 percent for the remainder of the decade.

The substantial increase in both stock buybacks and dividend payments suggests that managers in the industry were heeding the call from shareholders to maintain shareholder returns. Critically, these increased returns to shareholders took place in the face of declining profits and rising debt (Gunnoe 2012). As shown in figure 3, the ratio of debt to equity in the paper sector more than doubled during the financialization period, remaining above 100 percent for most of the 1990s and early 2000s.[12] This change suggests that any increase in shareholder returns was made possible by increasing the debt leverage of firms and may have had little relation to the financial health of the firm.

Mergers & Acquisitions

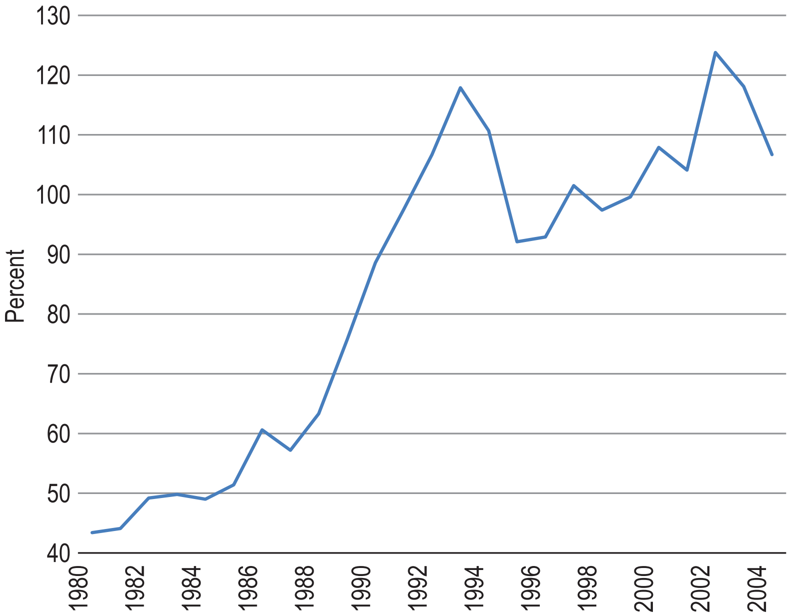
In the face of declining returns, chronic overcapacity, and a glutted market, the US forest products industry turned to consolidation and the reshuffling of existing assets in order to reestablish growth in their stagnating industry. During the 1990s, taking over existing mills became the preferred means of capacity expansion because while it did increase the capacity of a firm involved, it did not add to overall capacity in the industry. The result, as shown in figure 4, was an unprecedented period of mergers and acquisitions that utterly transformed the US forest

Figure 2. Ratio of total dividends to value added in US forest products industry



Source: BEA.

Figure 3. Debt to equity in US paper products sector



Source: Mies 2005.

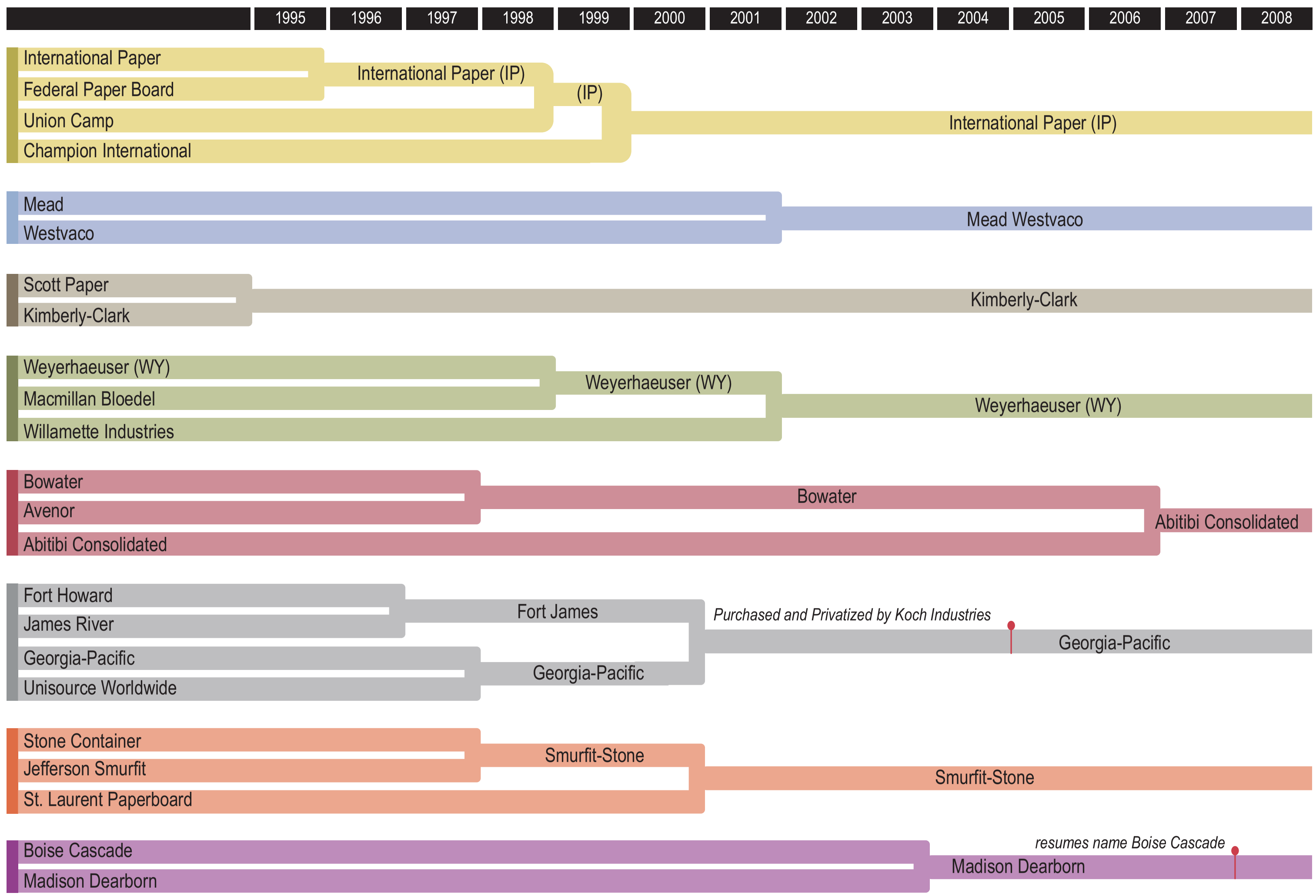
products industry, bringing an end to many of the industry's mainstays for the past century (see also Diamond, Chappelle, and Edwards 1999).

The forest products industry's merger wave began in the mid-1990s and has continued largely unabated up to the present. In 1995, many firms in the industry found themselves with a surplus of cash due to the record profits of that year; and with the lessons of the late 1980s' excesses in new capacity still fresh in their mind, they turned to purchasing existing mills instead of building new ones. International Paper, Consolidated Papers, Appleton Papers, Chesapeake, and Kimberly-Clark all purchased existing facilities over the course of the year.

In 1997, the industry experienced two significant mergers, both of which were friendly mergers aimed at increasing the market share and reducing competition. The first involved a $5.8 billion merger between Fort Howard Corp. and James River Corp., forming a single company under the name of Fort James Corp. Fort Howard entered the deal after employing advisors from Morgan Stanley to devise a way to "maximize value" for shareholders (Reuters 1997). Less than two weeks later, Wausau Paper and Mosinee Paper joined to form Wausau-Mosinee Paper Corp., making it the nation's largest producer of specialty papers. Commenting on this merger, an industry analyst remarked that "both stocks have tread water lately and this [merger] is a way to increase shareholder value" (Reuters 1997).

International Paper continued to consolidate its operations when it merged with Union Camp in 1999. Again, industry analysts were clear on the motivations behind the merger: declining earnings and the need to increase shareholder value (Banham 1999). The following year, International Paper made another large purchase when they acquired Champion International, solidifying their leadership in the printing/writing paper and market pulp sectors. Weyerhaeuser was also looking for suitable mergers in order to maintain their position among the industry's top firms. In 1999, Weyerhaeuser purchased the Canadian giant, Macmillan

Figure 4. Mergers and acquisitions in excess of $1 billion in US forest products industry, 1995–2008



Source: Author's figure based on data in Mies (2005).

Bloedel, establishing Weyerhaeuser as the industry leader in both softwood lumber and market pulp.

The shakeup in the US forest products industry continued to surge in the early years of the new millennium. Two of the nation's long-standing firms, Mead and Westvaco, merged in early 2002 in what was described as a "merger between equals" (Pidgeon 2001). The new company, MeadWestvaco, became the nation's fourth largest paper company with about $8 billion in annual sales. Commenting on the merger, John A. Luke Jr., President and CEO of Westvaco, added, "[w]ith this combination and the powerful business it creates, we are well positioned to deliver higher returns to shareholders." In early 2002, Weyerhaeuser initiated a hostile takeover of their rival, Willamette Industries. This takeover was the largest in the industry since Georgia-Pacific's merger with Fort James in 2000 and reestablished Weyerhaeuser as North America's second largest forest products company (Rudder 2002).

The mergers and acquisitions of the late 1990s and early 2000s radically altered the landscape of the US forest products industry. Industry titans dating back to the nineteenth century were swallowed up and/or merged with competitors in an unprecedented reshuffling of ownership. At least half of the top 10 firms in 1990 were merged under new names and/or acquired by a competing firm by 2008. These mergers produced a substantial increase in the market valuation of firms and were therefore successful in achieving their principal aim of increasing shareholder value (Mei and Sun 2008b). The mergers also led to a rapid growth in oligopoly market power in the forest products industry (Mei and Sun 2008a).

Restructuring, Core Competencies, and Labor

Although it increased oligopoly powers, the merger and acquisition wave saddled many firms in the industry with unsustainable levels of debt. Rising debt in turn became the principal justification for a series of restructuring programs aimed at increasing efficiencies, streamlining production processes, and focusing on "core competencies." Translated, this meant that underperforming mills would be shut down or sold off, assets deemed unnecessary were likewise sold off wholesale, and employees were laid off by the thousands. Each element of restructuring was undertaken by managers at various times, but most often they occurred after a prolonged period of declining profits or immediately following a merger or acquisition. In fact, many firms hired financial analysts from some of the nation's largest financial institutions for advice on how best to "maximize shareholder value" (Farley 1997).

A few brief examples may suffice here. One of the first, and perhaps most symbolic, shareholder value restructuring programs occurred when the board of Scott Paper decided to hire Al Dunlap to take over management of their floundering company. "Chainsaw Al" Dunlap, upon taking the helm of Scott Paper, immediately set out to institutionalize his shareholder value ideology of corporate management. His restructuring plan included firing the existing management team and replacing them with a team of trusted associates from his days with another large forest product firm, Crown Zellerbach. Next, he oversaw the "largest proportionate restructuring" of a US corporation to date, which included laying off more than 11,000 employees, reducing corporate assets, and putting an end to the company's philanthropic contributions (Perkins 1999). Scott Paper's CFO Basil Anderson later commented on the restructuring, noting that "the focus on shareholder value allows you to make better judgments on those kinds of expenses" (Perkins 1999, 5).

In the year after Dunlap was hired, his efforts at restructuring Scott Paper were a success when measured in terms of shareholder value. Operating income increased substantially and, most importantly, the price of Scott Paper's shares rose dramatically, from $38 when Dunlap took over, to $60 at the end of 1994, and then to $90 the following year. Wall Street cheered his management style and lauded him as a "turn-around champion." Former employees, of course, had a different view of his accomplishments, but for Dunlap's financial constituency, his efforts were a resounding success. In the summer of 1995, Dunlap sold what was left of Scott Paper to Kimberly-Clark for a $47.7 billion stock swap and Dunlap himself walked away from the deal with a $100 million compensation package for his efforts (Perkins 1999).

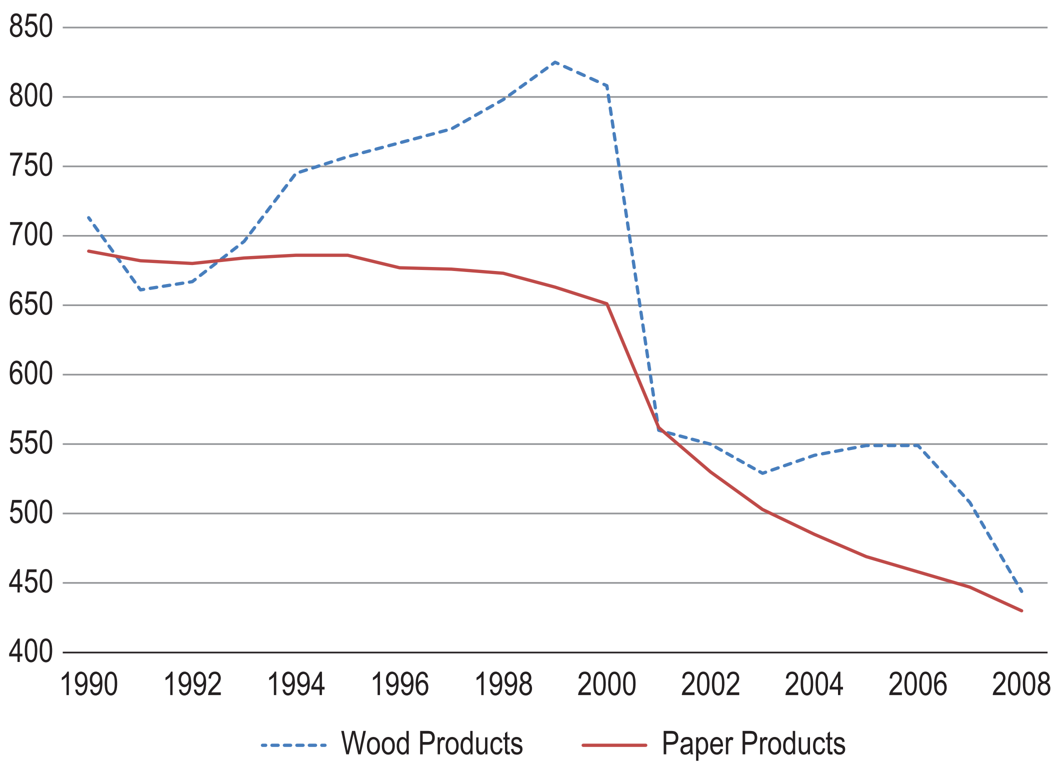
Georgia-Pacific began a restructuring program under the leadership of A. D. "Pete" Correll in the mid-1990s. Correll was seen as a leader in the shareholder value movement and was quoted as saying "it was high time these giant cyclical businesses start focusing on shareholder returns instead of worrying about revenues and market-share growth" (Henderson 1999). Correll's efforts began in 1994 when he launched a number of initiatives aimed at making Georgia-Pacific "the most cost-efficient company in the industry." This restructuring program led to the closing of almost half of the company's distribution centers and a "Mill Improvement Program" that cut costs and increased efficiency at the firm's 14 large pulp and paper mills. In 1996, Correll announced a hiring freeze and an early retirement program for salaried employees while he continued to close down underperforming plants and began the process of selling off timberland assets.

Georgia-Pacific's decision to sell its timberland was part of an emerging industry-wide movement to sell off their timberland holdings and constitutes one of the most significant transformations of private land ownership in US history (Gunnoe 2014; Gunnoe and Gellert 2011). Over the course of the twentieth century, the forest products industry acquired some 80 million acres of land across the United States, making the industry one of the largest and most powerful landowners in the nation. However, in the past three decades, as the pressure to increase shareholder returns increased, the industry sold off these timberlands wholesale in an effort to assuage incorrigible shareholders. The primary buyers of these timberlands were newly created institutional investment organizations, known as Timberland Investment Management Organizations (TIMOs), which own timberland as an investment asset, usually as part of a larger investment portfolio. By 2010, roughly 50 million acres of timberland had changed ownership class as financial institutions replaced industry as the dominant owners of US timberlands.

And last, but certainly not least, is the impact on labor. Most of the restructuring plans described above were accompanied with mass layoffs, often affecting thousands of employees at a time. Minimizing the labor necessary for production is a perennial feature of capitalism, but under the discipline of the shareholder value conception of management this impetus gained increased prominence (Lazonick and O'Sullivan 2000). Figure 5 shows the dramatic decrease in employee numbers for the US forest products industry. In the paper products sector, the number of employees was cut nearly in half over the course of a decade, while in the more labor-intensive wood products sector employment decreased by over a third from its peak in 1999. In both sectors, the layoffs rose dramatically in the years following 1999, corresponding to the merger wave and restructuring that took place in the late 1990s and early 2000s. The pursuit of shareholder value—along with increasing productivity due to technological innovation—left employees increasingly vulnerable as mass layoffs and mill closures became a central tactic in managers' desire to cut costs, decrease excess capacity, and ultimately increase shareholder returns.

In sum, the spread of shareholder value ideology led to a dramatic transformation of one of the most important and long-standing industries in the US economy. As a result, the industry is now far less stable and much more prone to risks emanating from market fluctuations that are beyond their control. These risks became apparent in the aftermath of the 2008–2009 financial crisis when several leading firms—including Smurfit Stone and AbitibiBowater—were forced into bankruptcy. Those that remained solvent turned to more mass layoffs and mill closures in order to decrease overall capacity. In all, the US forest products industry and related sectors of the economy lost over 1.1 million jobs in the aftermath

Figure 5. Full-time equivalent employees (in 1000s) in US forest products industry, 1990–2009



Source: BEA.

of the financial crisis, far more than the roughly half million lost in the US automotive industry (Woodall et al. 2012).

Conclusion

The foregoing analysis shows that the spread of shareholder value ideology had demonstrable effects on the decision-making of managers in the US forest products industry. Corporate managers engaged in a series of activities that were legitimated on the grounds that they would lead to an increase in shareholder value. These tactics included increases in both stock buybacks and dividend payments; a historic wave of mergers and acquisitions; and a series of restructuring programs that included a historical divestment of millions of acres of timberland to the financial sector. Each of these tactics, in their own way, can be understood within the context of the broader shift in economic activity away from production and toward finance, or financialization.

In recent years, a number of economic and organizational sociologists have attributed these transformations to cultural changes taking place among corporate managers (Fligstein 2001; Davis and Thompson 1994). The evidence shows that over the past several decades there has indeed been a qualitative shift in how managers think about their job and the discourses they use to justify their decisions. Managers became less concerned with long-term growth and stability, and more focused on meeting the quarterly expectations of their owners on Wall Street. I argue, however, that approaches that emphasize cultural shifts taking place among corporate managers—much like their postwar era predecessors—tend to reify managerial ideologies by diminishing the imperatives of capital accumulation and the structural dynamics of historical capitalism. Managers did not just change their mind about how to manage a firm, but were part of a broader socio-historical shift taking place in the capitalist system. The accumulation crisis of the 1970s was the result of a number of contradictions that were developing within postwar capitalism. Financialization emerged in direct response to this crisis because it proved to be the most viable means for jump-starting a stagnating American economy. As such, financialization represents the real concrete conditions of late twentieth-/early twenty-first-century capitalism and provides the necessary context for understanding the shifts taking place in corporate governance.

By focusing on the dialectical relationship between financialization and shareholder value ideology, this article makes two primary contributions. First, it integrates perspectives from political economy and economic/organizational sociology, which despite calls for integration (see Mizruchi 2007), remain isolated and rarely engage with each other. Integrating these perspectives provides a number of advantages. First, it allows us to appreciate how changes in the modern corporation relate to broader issues of class struggle and power. The absence of social and political considerations among theorists of shareholder value and corporate governance has been highlighted as one of their principal shortcomings (see Soederberg 2008; Lazonick and O'Sullivan 2000; Krippner 2011). By embedding the shareholder value conception of control within the broader dynamics of financialization, we are able to appreciate the relationship that exists between managerial conceptions of control and the structural imperatives of ongoing capital accumulation.

An additional benefit of integrating these literatures is that it addresses concerns raised by some about the challenge of locating discrete actors within an analysis of the capitalist system as a whole (see Krippner 2011, 13–14). The concept of a totality serves as a reminder that the behavior of individual actors is not to be explained in reference to society in general, but in the concrete socio-historical conditions in which actors are embedded. Political economists working in this tradition tend to focus on the dynamic interactions taking place between the forces and relations of production in modern capitalist societies. These theories tend to be pitched at a higher level of abstraction because they are primarily concerned with the structural dynamics of contemporary capitalism and the objective requirements of ongoing capital accumulation. This level of abstraction is necessary because it allows analysts to focus on the accumulation process, which remains a fundamental driver of change in capitalist societies; however, these works are far from sufficient for explaining the behavior of social actors operating within particular organizational fields. The literature on shareholder value and managerial control helps fills this void by highlighting how the structural shift toward financialization was articulated within the changing norms of managerial behavior. A dialectical analysis operating on multiple levels of abstraction allows us to examine the complex interactions that exist between shifting norms of corporate governance and the material processes of capital accumulation.

The second primary contribution of this paper lies in its empirical analysis of how the pursuit of shareholder value contributed to the financialization of one of the largest and long-standing manufacturing sectors in the US economy. I argue that the series of empirical changes highlighted in this paper were directly linked to the financialization process and the broader shift in class relations taking place in contemporary capitalism. The significant concentration of stockholdings among institutional investors and the growth of incentive-based compensation packages for managers constitute two of the critical, though by no means the only, components of this shift. Shifting class relations in the firm, in turn, proved to be fertile ground for shareholder ideology and its notion that managers' primary responsibility is to increase shareholder returns. Managers in the forest products industry increasingly adopted this ideology and, in doing so, pursued a series of tactics that were justified on the grounds that they would increase shareholder value. Critically, this did not constitute a loss of control on the part of managers, but is more accurately characterized as a shifting metric of success in corporate management.

The forest products industry has been a critical component of the US industrial economy for well over a century, providing a source economic activity for countless rural communities across the nation. The evidence suggests that the pursuit of shareholder value has, in many ways, been a disaster for the US forest products industry as a whole. But as Fligstein and Shin (2007) note, a full consideration of the effects of shareholder value should include a measure of the success of the movement on its own terms. In this sense, shareholder value was successful in legitimating and rationalizing a dramatic transformation of one of the United

States' most important manufacturing sectors. And although these transformations did not produce resurgence in overall profitability, they did serve to enrich the financial interests that own and control the US forest products industry. From the vantage point of their interests, it was a resounding success.

Notes

1. Dialectics refers to a conception of things in terms of their internal relations and from which change results from the interaction, or conflict, of contradictory forces (see Ollman 2003). See Benson and Kim (2008) for an overview of how dialectical analyses can be utilized in economic and organizational sociology.
2. Capital accumulation, or the savings and investment process, refers to the total stock of capital assets employed for the purpose of expanding capital, or profits.
3. The concept of a totality is central to Marx's scientific method. Marx adopted this method from Hegel. However, he famously turned Hegel on his head when he applied this analysis to the dynamic interaction taking place between the forces and relations of production in capitalist society (see Ollman 2003).
4. A stock buyback is when a firm purchases its own stock in order to bid up the price of their stock and increase shareholder value. The preference for stock buybacks is due in large part to the lower tax rate for capital gains in the United States (see Grullon and Michaely 2002).
5. Many analysts claim that the outflow of corporate profits undermines the ability of firms to invest in innovation and expanded capacity (see Orhangazi 2008; Lazonick 2013), but this claim is contested by Foster and Magdoff (2009), who argue that it is mistaken to conclude that there is a crowding-out effect in oligopolistic markets that are already experiencing excess capacity and declining utilization rates.
6. Because data were mined from individual corporate proxy statements, it was not possible to include an analysis of ownership and executive compensation for every firm in the industry. Therefore, I use the top 10 firms as a proxy for the industry as a whole. Due to the significant amount of consolidation that took place (only half of the top 10 firms in 1980 were still in existence in 2005) over the study period, I decided to adopt a "sampling with replacement" methodology that analyzed the top 10 firms measured by total revenue at two intervals.
7. In addition, data were not available for one of the two remaining firms, Abitibi-Bowater.
8. Ownership data was compiled manually by the author from 2010 corporate proxy statements.
9. Data were compiled from corporate proxy statements from the given year. Incentive-based compensation consists of all performance-based income, including stock options, restricted stocks, and long-term incentive plan payouts. Incentive-based compensation was divided by total annual income (salary and bonuses, plus incentive-based compensation) in order to establish the percentage of incentive-based compensation for chief executives.
10. Financial profits—following Krippner (2005)—are measured as the ratio of financial receipts to business receipts. IRS data was provided to the author by Ken-Hou Lin as part of the IRS data used in Lin and Tomaskovic-Devey (2013).
11. The increased ratio of dividend payments to value added was not due to a decrease in value added, which remained relatively stable throughout this period.
12. Data on debt ratios were available only for the paper sector, which is substantially more capital intensive than the wood products sector.

About the Author

Andrew Gunnoe is an Assistant Professor of Sociology at Maryville College. He completed his PhD at the University of Tennessee in 2012. His research interests include political economy, environmental sociology, and economic sociology. His research examines the relationship between finance, corporate transformation, and landownership and has recently appeared in journals such as *Rural Sociology* and *Critical Sociology*.

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