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The changing relation between CEOs and shareholders

A case study on Royal Philips NV, 1971-2001

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Abstract

Purpose – This paper aims to present case study evidence on the changes in the relations between chief executive officers (CEOs) of large firms and shareholders in the past three decades of the twentieth century. In line with insights from agency theory, the CEOs have experienced increased scrutiny from their principals, the shareholders. This development has affected financial communication and investor relations as well as stock market prices.

Design/methodology/approach – The Dutch electronics firm Royal Philips NV in the transition period of 1971-2001 has been studied using publicly available disclosures and stock market prices. A descriptive case study approach is combined with event study methodology.

Findings – It was observed that the increased emphasis on shareholder interests has affected the interactions between Philips' respective CEOs and the shareholders' reactions to strategic decisions as measured by stock price changes. Around the beginning of the twenty-first century, clarity and openness in CEO communication was the norm and deviations were punished with volatile stock prices.

Research limitations/implications – The study relies on publicly available data.

Originality/value – The case study of Philips can be extrapolated to other exchange-listed firms in the late twentieth century, which faced changed expectations about the role of the CEO, investor relations and the CEO's accountability toward shareholders. This transition is relevant not only as a historical observation, but also as a background to studies in finance and management about top management and financial markets.

Keywords The Netherlands, Investor relations, Financial markets, Principal-agent theory, Chief executive officer (CEO), Shareholder communication

Paper type Case study

1. Introduction

In the twentieth century, stock markets had become an increasingly important institution in economies. A key feature of the exchange-listed companies is that professional managers run the corporations owned by shareholders, which can freely enter or exit as financiers. From the late 1970s, the seminal work of Jensen and Meckling (1976) has strongly influenced the societal perceptions of the roles of managers and financiers in the Western world. Jensen and Meckling depart from the corporation as the dominant organizational form for large-scale business, where managers are hired as agents by shareholders acting as principals.

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From this principal–agent framework, where managers may act in their own interests, which are only partially aligned with shareholder interests, an awareness has grown among shareholders about the fiduciary duties of professional managers (Davis and Thompson, 1994; Useem, 1996; Bendickson, Muldoon, Liguori and Davis, 2016).

The agency logic has been often-debated from the perspective of strategic decisions (Jensen, 1986), corporate governance (Shleifer and Vishny, 1997) and financial reporting (Healy and Palepu, 2001). However, less known is that firms have responded to the increased demand for information by investors, and in particular shareholders, with the inception of the investor relations function (Bassen *et al.*, 2010). The investor relations function emerged with the evolution of the capital market, as was first seen in the USA in the 1960s, when brokers initiated commercial sessions for analysts and investors. After its inception, the importance of the investor relations function significantly increased in the 1980s, when the active takeover market demanded that corporate managements be concerned about their share prices and communicate the credibility of their vision and strategy to the investing public. Booming capital markets jointly with demanding shareholders and potential investors provided fertile soil for growth of the investor relations function (Silver, 2004, p. 70), and in particular, the threat of gambling shareholder loyalty in a control contest was looming (Brennan and Tamarowski, 2000). In the 1990s, flourishing capital markets, deregulation and increasing shareholder activism further boosted the importance of the investor relations function (Marston and Straker, 2001). In particular, chief executive officers (CEOs) became important for financial markets and the demands for open dialogues increased (Westphal and Fredrickson, 2001). The role of the CEOs transitioned from one of the professional managers to figurehead and spokesperson of the firm (Khurana, 2002). Around the same time, in the 1990s, business media expanded rapidly, causing changes in the way investors behaved. Both the density and the frequency of business news increased significantly (Schuster, 2005). Global information channels aroused the attention of many people, who became active in the markets in ever-growing numbers. Business news media, such as CNBC in the USA, initiated regular broadcasted interviews with corporate executives.

In this article, we describe how the changing dominant logic about relations between top managers and shareholders has affected the Dutch multinational Royal Philips NV (Philips) over the period 1971-2001. In particular, we investigate shareholder reactions to CEO announcements to describe the importance of CEO communication with shareholders. We do so against the background of changing ideas about shareholder–management relations and the upcoming investor relations function. Because of the agency logic, shareholders became more demanding toward corporate executives in informing them about the strategic directions of the firm, i.e. agents' accountability toward principals increased. Although the investor relations department could handle non-strategic information requests and advice executives, the shareholders depended on the CEOs for guidance on the firms' strategies.

Many developments originated in American and British businesses, but almost instantaneously influenced multinational Continental European firms. In The Netherlands, stock market capitalization as percentage of gross domestic product grew from 0.42 to 2.03 in this period (Rajan and Zingales, 2003). Moreover, as De Jong *et al.* (2010) describe, the shareholder base of Dutch firms has become highly international since the 1980s and cross listings became increasingly popular. As a result, institutional investors – both domestic and foreign – have become more prominent players in the Dutch financial markets. Also, in The Netherlands, the role of investor relations became increasingly important, and the role of the CEO in The Netherlands has changed in similar directions as in the USA (Kroeze and

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Keulen, 2011). Thus, the Dutch developments closely followed American and British businesses.

In our view, Philips is a relevant case, because of its international presence and visibility. We start our study in 1971 with the transition – from family-dominance since its inception in 1891 – when the firm attracted an outside professional CEO; a move which was expected to enhance the potential for agency conflicts. We follow Philips for 30 years, because in the 1970s, 1980s and 1990s, we witnessed the rise of the agency logic, the inception of investor relations and a changing perspective on the duties of the CEO. Moreover, in these years, the company struggled with international competition and revisited its business model several times, which put the firm in an increasingly demanding position to meet shareholders' expectations and explain strategic decisions. We finish our analysis in 2001, because the ideas about investor relations and the centrality of the CEO were then widely accepted and new developments for investor relations started with the spread of the use of the internet (Kuperman, 2000). In the period studied, Philips made many strategic decisions – acquisitions, divestitures, restructurings, etc. – and interacted with financial market participants about the rationale of the underlying strategy. The aim of this article is to describe the shareholder reactions to CEO communication, to study the interplay between financial communication and investor relations, the role of the CEO and share price movements following strategic decisions, in a setting with increasing scrutiny by shareholders and financial intermediaries.

Our study is a case study aiming at the exploration of a new topic in business history, which involves changes in CEO communication with shareholders about strategic decisions, during the rise of principal – agent logic and investor relations activities. Toward the end of this study, we aim to develop a testable hypothesis, which can be used in further analyses for a larger sample of firms. This approach is in line with recent suggestions in business history methods (De Jong *et al.*, 2014; Bowden, 2016).

The remainder of this paper is organized as follows. In Section 2, we provide background on the development of information exchanges in financial markets and discuss the Dutch institutional setting. In Section 3, we present our approach and sources. In Sections 4 and 5, we describe our case study analysis of Philips. Finally, in Section 6, we provide a synthesis of the effects of communication in changing financial markets and conclude.

2. Background

In this section, we discuss selected literature as a background to our case description. The international development of financial reporting rules and conventions, corporate governance and M&A and restructuring has received ample attention already. The development of the agency logic, which is an important motivation for our study, will first be discussed (Section 2.1). Next in this section, we will discuss the developments in investor relations and the role of the CEO therein (Section 2.2). Then, we will elaborate on the Dutch setting on investor relations and the CEO (Section 2.3) and corporate governance (Section 2,4).

2.1 Principal – agent theory

Berle and Means (1932) concluded already early in the twentieth century that the dispersion of ownership in corporations puts the management in a powerful position, while the interests of ownership and control may be divergent. Jensen and Meckling (1976) have further developed agency theory and promoted a now widely used analytical framework. In particular, the notion that information asymmetry and divergence of interests between professional managements and shareholders and between bondholders and shareholders may be costly. They have also defined the costs of controlling agency problems that stem

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from bonding and monitoring activities. In addition, they define the residual costs to be the remaining loss owing to agency problems. Many subsequent studies have documented monitoring and bonding mechanisms and measured agency costs (Eisenhardt, 1989).

In academic research as well as in practice, there is awareness about the position of shareholders *vis-à-vis* the duties of professional managers (Davis and Thompson, 1994; Useem, 1996). Echoing Zajac and Westphal (2004), we observe that the agency logic has become the dominant perspective in the USA, since the late 1970s, and strongly influenced other Western economies. With the increasing importance of equity markets and recognition of principal–agent problems – and despite deregulation trends – regulations and laws have been introduced to protect investors. The aim of such laws and regulations is to have publicly traded firms act more transparent (La Porta *et al.*, 1999).

2.2 International developments in investor relations and the role of the CEO

The functioning of financial markets in general and stock markets in particular depends to a large extent on timely and accurate information. Publicly listed firms nowadays provide mandatory disclosure, such as periodical financial reports – including explanatory notes, press releases with price-sensitive information and other filings required by the financial market regulators. In addition, firms provide voluntary disclosure, such as analyst briefings and calls, corporate websites and public communication (Healy and Palepu, 2001).

Investor relations officers are charged with communicating information to the market. NIRI, the leading US investor relations association, defines investor relations as:

> A strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a firm, the financial community, and other constituencies, which ultimately contributes to a firm's securities achieving fair valuation (NIRI, 2003).

In more general terms, Marcus and Wallace (1997) argue that the nature of the investor relations function emerged in three phases. First, investor relations were aimed at communicating the firm's actions, and second, it increased its focus on the firm's financial performance. In the final phase, investor relations actively marketed the firm's securities to encourage investors to buy or hold the firm's securities. In this phase, investor relations ensure that the firm and its securities are fairly valued. Investor relations, therefore, are charged with managing financial market participants' expectations.

A forerunner in investor relations is General Electric. This firm set up already in 1953, a department dedicated to financial communication with its shareholder base (Lake and Graham, 1990). Many firms followed this initiative. In the bull market of the 1960s, this activity became more suspicious, as many firms aimed to hype their stock, reducing the credibility of financial communication. As a reaction, in 1969, NIRI was established, to restore credibility and confidence in financial communication practices. In the 1970s and 1980s, the importance of the investor relations function grew further in concert with the growth of the financial markets, while the investor relations function in the USA developed ahead of that in most other countries. In particular, the M&A wave in the 1980s has had a stimulating effect on the professionalization of investor relations, because the communication with financial markets about the firm's strategies became both more urgent and more complex (Lake and Graham, 1990). In addition, this decade also saw the increase of vocal institutional shareholders, such as CalPERS and TIAA–CREF, and financial analysts became the prime audience for investor relations officers. For example, an NIRI research (Lake and Graham, 1990, p. 28) demonstrates that analyst meetings and contacts are the most important activity out of 15, while, for example, the annual shareholders meeting ranks

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eighth. In particular, financial analysts play a key role as information intermediaries, by producing reports on companies and publishing predictions and recommendations (Bassen *et al.*, 2010). By providing information to analysts and influencing their valuation of the firm, investor relations can market the firm to potential investors (Rao and Sivakumar, 1999), help overcome low visibility and attract new analysts and new investors (Bushee and Miller, 2012). In Europe, the developments in investor relation lagged behind the US initiatives (Lake and Graham, 1990, p. 49).

Nowadays, a key role in communications with investors is played by CEOs. In a historical perspective, the changes in ownership and control in large US corporations have resulted in a changing role of the CEO. Traditional nineteenth-century manufacturing firms typically were family-owned and managed. The founder and the chief executive were usually the same person (Khurana, 2002). With the growth and expansion of these firms in the twentieth century, managing these firms started to overwhelm the owner-manager. At the same time, growth often was financed through a partly sale of the company to shareholders and investors. Through delegation of management responsibility from founders to professional managers, a separation between ownership and control was achieved. With the increasing dispersion of corporate share ownership in the twentieth century, corporate management enjoyed increasing power *vis-à-vis* its owners. But the credibility of corporate executives started to suffer when embarrassing examples of managerial perks were published in the 1980s. Perks like fleets of corporate jets and executive dining rooms combined with declining corporate performance changed the public image of corporate executives (Khurana, 2002). In response, institutional investors started to put pressure on corporate boards to take their concerns about corporate performance seriously. Institutional investors, such as pension funds, used various means to hold, in particular, the CEO more accountable for corporate performance. In prevailing cases, outright dismissal of the CEO was called for. This resulted in a more CEO-centered view of the corporation. The underlying premise is that the CEO is responsible for and can be held accountable for corporate performance, irrespective of his own job performance. A new corporate leadership emerged in the 1980s. Newly appointed CEOs typically were no longer defined as professional managers aimed at controlling a company but rather as leaders, with the charisma required to lead the firm (Khurana, 2002). Opposite to their older, more quiet, more politically skilled predecessors, the new charismatic leaders are more communicative. The transition toward CEOs as charismatic leaders is driven by shareholders' demands for a management style that includes a personality to impress the business press and financial analysts (Khurana, 2002).

2.3 The Dutch capital market and corporate communication

In The Netherlands, until the 1960s, the term investor relations was not used and communication with shareholders consisted of preparing an annual report, occasional press releases and press conferences and the annual shareholders meeting. Posthumus Meyjes (1960) is a well-known shareholder and critical follower of firms, and he prepared in 1960, an overview of best practices for firms, which included an open dialogue in the yearly meeting with shareholders and an annual report, which would apparently suffice in those days. In 1976, we find an early reference to the term investor relations, as Van Hilten (1976, pp. 205-217) argues that the stock market valuation benefits from careful communication, by improving the opportunities to raise new financing and making the firm less attractive for a hostile bid. These efforts were considered still limited in those days, and the author advocates firms to have more than a single meeting with the press, during the presentation of the annual report. The main interest groups were shareholders and journalists, and financial analysts were not mentioned.

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In 1961, a Dutch foundation of financial analysts (VBA) was established with 102 members. In 1970, the foundation was still relatively small with 174 members, while in 1980, the group had expanded to 306 members (Vereniging van Beleggingsanalisten, 1981). The emphasis was strongly on financial accounting and ratio analysis.

In 1983, the Amsterdam Stock Exchange invited financial journalist Harry Mock to write a booklet on financial communication for practitioners, entitled "How do I tell my shareholders?". As the title suggests, the booklet is defensive and a bit pedantic in tone. The readers are told to communicate clearly and consistently. Still, the emphasis is on the annual report and the annual meeting. However, additional attention is paid to semi-annual reports, press releases, forecasts and meetings with press and analysts. Ten years later, in 1992, the same author expanded the book and used the term investor relations in the title. Interestingly, the key topics were unchanged. In the third edition, published in 1999, the emphasis changed. Most prominently, financial analysts played a more central role as intermediaries between firms and investors (Mock, 1999, p. 25). Also, an investor relations year schedule was included, promoting continued interaction with investors and analysts. Clearly, investor relations in The Netherlands has changed from a focus on annual report and meeting toward shareholders to a much broader activity focused on various financial market participants. Over the years, several investor relations consulting firms have become active in the Dutch market. A leading agency is Investablish, founded in 1987 under the name Rematch. Another firm is First Financial Communications, founded in 1993.

2.4. The Dutch corporate governance and CEO role

Although the capital market in The Netherlands is well-developed, its institutional setting has unique characteristics that may affect company disclosure and communication with financial markets. Dutch companies historically have access to a multitude of protection mechanisms, reducing the threat of a hostile takeover (De Jong *et al.*, 2007). At the same time, however, these anti-takeover mechanisms reduce the disciplining role of the market for corporate control. As a result, the Dutch capital market exerts lower pressure to managers of Dutch companies to be publicly accountable for their performance via adequate disclosure. A second characteristic is that Dutch companies have a two-tier board structure. Even though this might lead to better monitoring of daily management by independent board members, it may also reduce the need for monitoring by outside shareholders. As a result, management may be less motivated to disclose corporate information. A third feature of the Dutch capital market is ownership concentration. Often, large shareholders hold large blocks of outstanding shares (De Jong *et al.*, 2005). These large block shareholders are usually considered to have better access to management and operational information and have more incentives to monitor operational performance (Shleifer and Vishny, 1986). This enhanced monitoring by large block shareholders reduces the need for communication with the market. In summary, the Dutch setting has various features that provide limited incentive to financial market communication by management.

Both large shareholders and legal devices to mute shareholders' voices have been present throughout the second half of the twentieth century. However, two developments have taken place in the 1980s and 1990s in the Dutch financial markets (De Jong *et al.*, 2010). The first is a rapid internationalization of the shareholder base since the 1980s. In 1995, already 37 per cent of the shares were held internationally, whereas this percentage even more than doubled in the subsequent 10 years to 75 per cent (Abma and Munsters, 2007). The Dutch capital market has experienced a liberal political climate, allowing easy inflow of foreign capital. Also, cross listings became increasingly popular with large and mid-sized Dutch listed firms. The fact that these large Dutch firms generate the largest part of their turnover

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outside The Netherlands further amplifies the desirability of the international character of their shareholder constituency (Abma and Munsters, 2007, p. 207). The second development is that institutional investors have become more prominent players in financial markets, by actively engaging with companies in their portfolio (De Jong *et al.*, 2010). On the one hand, these investors are skilled professionals, making in-depth analyses of the firms in their portfolios. On the other hand, the institutional investors actively approach companies in their shareholders' meetings and during road shows and one-on-one meetings with the management. This development has led to an increased demand for stock price-relevant information and scrutiny of corporate disclosures.

The role of the CEO in The Netherlands has also changed in similar directions as in the USA, but later. From the 1970s onwards, the firm management changed a collective responsibility of an almost anonymous group of peers, to a CEO-led team, with a lot of focus on the person of leader. As such, the CEO could make the difference with a personal style. The CEO had to lead the way, to motivate, and became a figurehead (Kroeze and Keulen, 2011). Sluyterman (2003, pp. 206-207) explains the changes in the Dutch setting, where in the 1960s, directors were seldom dismissed because of poor performance and that the management board presented themselves and the views collectively. The chairman of the management board does not have a separate title and acts often as *primus inter pares*. In the 1990s, this changed to a situation where the chairman is referred to as CEO. The CEOs are more inclined to present their personal views in annual reports and interviews, but also held accountable for weak performance. The average tenure of a CEO dramatically shortens.

3. Analyses and sources

We provide a description of strategic decisions and share price reaction of Philips over the period 1971-2001, based on publicly available information. The core of our description is all public announcements of major strategic decisions over the 30 years and the share price reactions to these announcements. To control for the changing characteristics of Philips in terms of size, performance, financial reporting quality, stock trading volume and analyst following, we provide additional statistics of the firm. In terms of analysis, we do not define hypotheses or impose a causal structure on our data.

We obtain share returns and volumes and index returns from Datastream (1973-2001) and the *Officiële Prijscourant* (1970-1973). We follow existing research (Beaver, 1968; Bamber, 1986) by applying a volume-liquidity metric defined as the percentage of shares traded divided by the shares outstanding on that day. The volume-liquidity metric is calculated on a daily basis and averaged per calendar year. We obtain firm financial and non-financial information from the Philips annual reports. We adjust for inflation[1]. We take ownership data from the *Handboek Nederlandse Beursfondsen, Jaarboek Nederlandse Ondernemingen* and yearly overviews of legally obliged minimum share-ownership notifications in the Dutch financial daily, *Het Financieele Dagblad*. Analyst data from the IBES database are used to analyze the number of analysts issuing earnings forecasts.

We collect event dates for Philips' announcements with regards to strategic decisions over the period 1971-2001. We define these decisions to include asset sales (divestments, management buyouts and spinoffs) and investments (full acquisitions, partial acquisitions, joint-ventures and alliances). We look up initial announcements in *Het Financieele Dagblad*. The electronic version is available starting 1985; we retrieve all newspaper articles with the firm name in the title or in the body of the text and we manually identify articles with the relevant events. For the period 1971-1985, we analyze Philips annual reports to identify relevant events and subsequently verify announcement dates with the paper version of *Het Financieele Dagblad*. In total, we include 451 announcements in the period 1971-2001[2].

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Since the seminal paper by Fama (1970), finance researchers have used the event study method to measure the value effects of announced strategic decisions (MacKinlay, 1997). Event studies measure the change in the share price immediately following the arrival of new information in financial markets, controlling for share price effects in absence of new information. We measure the cumulative abnormal returns (CAR) around announcements using abnormal returns generated by a market model (MacKinlay, 1997). Our estimation window runs from 120 to 20 days before the announcement day. We aggregate the abnormal returns over a period of seven days, starting three days prior to the event announcement date until three days after the event announcement date. Apart from the percentage returns, we also calculate the euro wealth effects by multiplying the seven days CAR by the beginning of the year's market value of the acquirer's equity.

A disclosure index of the Philips annual reports is constructed based on Botosan (1997)[3]. The items now included in our measure reflect information identified by investors and financial analysts as useful in investment decision-making, including background information, summary of historical results, key non-financial statistics, projected information and voluntary information provided by management. Philips annual reports over the period 1971-2001 are examined and the disclosure index is calculated for each annual report. Information with regards to the communication of firm strategy is based on public interviews given by the CEO within the first 18 months in office, which we have found in *Het Financieele Dagblad* and (inter)national business magazines[4].

A potential limitation of our research is that we do not use internal sources. Although access to archival materials and interviews would have provided us with more background information, the lack of such an opportunity is not detrimental, because we focus on the public role of the CEO, his communications and the stock market reactions, which are all available in the public domain.

4. The history of Philips until 1971

Philips started in 1891 as a partnership with Gerard Philips and his father. Soon Gerard's brother Anton joined the venture. Initially, Philips focused on the production of light bulbs and by the turn of the century Philips was the third light bulb producer in Europe (Sluyterman, 2003). Because of this single-product focus, Philips was able to invest heavily on a continuous basis in modern production assets and facilities. Philips also invested significantly in research and created technological advances, which enabled the firm to generate a healthy financial fundament (Bartlett, 2001). From 1900 onwards, Philips penetrated foreign markets through exports. From 1912, local sales organizations were set up, while all non-sales functions remained at the corporate headquarters in Eindhoven. Since 1912, Philips has been listed at the Amsterdam Stock Exchange. Philips has been a family firm since its foundation. Although the family has sold off most of its shares, they have always held so-called priority shares with special rights (Metze, 1991, p. 55). The special rights allotted to the family pertained to the binding nomination of the members of both the management board and the supervisory board. Through this mechanism, the Philips family could maintain control[5].

From its initial single-product focus on electrical light bulbs, Philips diversified into radio equipment in 1925 and held a 20 per cent market share around 1935. In the 1930s, Philips further diversified with the production of X-ray tubes. At the same time, the general economic conditions led to many macroeconomic protection measures, forcing Philips to build local production facilities to protect its market share. Anticipating the break-out of the Second World War, Philips transferred its foreign operations into two trusts (North American Philips Corporation and British Philips), all top management was moved to the

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USA and a substantial part of the research laboratory was moved to the UK (Sluyterman, 2003).

During the Second World War, the national organizations increased their independence from the headquarters. With the loss of production capabilities in the war, Philips regarded the national organizations as an important building block in the postwar development of the firm and developed prosperously (Metze, 1991, p. 39). The organization model that emerged is a matrix structure with product divisions led from the headquarters in The Netherlands and the national organizations owning the production assets and the sales channels (Bartlett, 2001). This structure came under pressure in the 1960s, because of the introduction of the European Economic Community and subsequent new product requirements, and because Philips had relatively high production costs, as many of Philips' competitors shifted production to low-cost regions, such as Asia (Metze, 1991, p. 63). Starting in the late 1960s, Philips' ability to turn technological superiority into commercial success began to diminish and Asian competitors began to penetrate the markets that traditionally had been dominated by Philips (Metze, 1991, pp. 90-91).

5. Philips, 1971-2001

In this section, we present a chronology of events from 1971 until 2001, where for each CEO, the relevant developments will be described and discussed.

5.1 Van Riemsdijk (1971-1977)

Appointed in 1971, Henk van Riemsdijk was the last member of the Philips family at the helm of Philips. He started his career with Philips in 1934 in the commercial department and married Henriëtte Anna Philips, a daughter of one of the founders. It has been generally assumed that he thanked his presidency to this marriage and the family ownership of priority shares. When, on May 6, 1971, Henk van Riemsdijk was appointed CEO (in Dutch, *President van de Raad van Bestuur*), he took over a company with 20 years of uninterrupted postwar success. Although Philips was technologically still advanced, the 1970s were difficult times. The technological innovations were no longer sufficient to convince buyers (Manders and Benner, 1995) and competition from Asia entered Philips' markets. Many of Philips' smaller, less-profitable factories were closed to create larger and more efficient units. Philips also continued its innovative efforts in recording, transmitting and reproducing television pictures. Competition from Japanese firms with more efficient production intensified. Philips' restructuring could be characterized as efficiency improvements without forced layoffs.

In Table I, we present an overview of the development of the key company characteristics per year. In the period 1971-1977, the firm was relatively stable. The workforce was around 380,000 employees, while the book value of total assets (taking into account inflation) decreased by 10.5 per cent. Sales increased from €8.2bn to €14.1bn, which was primarily caused by inflation.

Average investments in capital expenditure were 0.03 per year. Average investments in research and development were 6.3 per cent per year (Table I)[6]. Net accounting return was, on average, 6.1 per cent per year.

The combination of increasingly fierce Japanese competition, decentralized (and hence expensive) local production, strong reduction in product life cycles and volatile foreign currency movements put a heavy strain on firm's profitability. Under these circumstances, so as not to lose confidence from the investor community, Philips management was in constant search for accounting policies that would show the highest profit in the particular situation (Brink, 1992, pp. 264-266). In particular, under Van Riemsdijk, Philips charges

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Table I.
Philips key characteristics, 1971-2001

CEO	Year	Total assets (€m in 2001 values)	Total sales (in €m)	Employees	Cap. exp. to total assets (%)	R&D exp. to total assets (%)	ROE (%)
Van Riemsdijk (1971-1977)	1971	31,301	8,222	367,000	8.4	NA	0.6
	1972	30,181	9,041	371,000	1.3	NA	−1.3
	1973	30,542	10,239	400,000	3.2	NA	−8.8
	1974	32,593	11,313	397,000	3.8	NA	5.5
	1975	31,407	12,304	397,000	3.5	NA	−10.0
	1976	28,918	13,811	391,000	−0.4	6.1	−3.4
	1977	28,016	14,142	383,900	1.3	6.6	−1.8
Rodenburg (1977-1981)	1978	26,574	14,160	380,400	−0.4	7.3	11.5
	1979	29,183	15,083	378,600	3.4	6.9	1.4
	1980	30,908	16,579	372,600	5.0	6.9	−8.4
	1981	31,220	19,245	348,100	3.1	6.8	−12.9
Dekker (1982-1986)	1982	29,842	19,508	336,200	3.4	7.3	8.8
	1983	32,022	20,957	343,000	0.1	6.9	5.6
	1984	35,398	24,415	344,000	3.7	6.6	−4.1
	1985	33,554	27,247	345,600	−0.9	7.6	9.0
	1986	32,060	24,975	344,200	0.1	8.3	12.5
Van der Klugt (1986-1990)	1987	31,781	23,921	336,700	0.5	8.7	−27.0
	1988	33,399	25,448	310,300	0.1	8.7	−27.5
	1989	34,368	25,967	304,800	0.1	8.3	21.3
	1990	31,466	25,305	272,800	−3.7	8.5	0.0
Timmer (1990-1996)	1991	27,975	25,859	240,000	−5.2	8.1	−5.8
	1992	27,648	24,846	235,100	0.6	7.5	−5.9
	1993	25,659	26,694	238,500	−3.2	7.3	−7.8
	1994	25,976	27,670	241,400	−0.1	7.7	11.1
	1995	27,648	29,252	253,600	2.2	7.4	−2.3
	1996	28,546	27,094	250,400	2.7	7.4	−21.7
Boonstra (1996-2001)	1997	30,147	29,658	252,000	0.8	6.8	20.6
	1998	30,849	30,459	234,500	−2.6	7.3	−28.1
	1999	31,625	31,459	227,500	2.6	7.7	−7.0
	2000	40,275	37,862	219,500	4.4	7.2	17.7
	2001	38,454	32,339	189,500	−3.4	8.6	2.7

Notes: This table presents variables relevant to Philips' size, strategy and performance. Financial information is recalculated in euro and inflation adjusted to 2001; Total Assets are measured as book value at year end. Total Sales is cumulative total revenue for the financial year; The number of employees is measured at year end. Capital expenditure is the difference in year on year fixed assets at year end. Capital expenditure to Total Assets is a proxy for organic growth; Research and Development Expenditure over Total Assets is a second proxy for organic growth; EBITDA is Earnings before interest, taxes, depreciation and amortization; Sales per full time equivalent and EBITDA per full time equivalent are inflation adjusted and measured at year end to proxy productivity; ROE is net accounting return measured as net income over book value of equity

reduction in share values resulting from technological progress to the revaluation account in the balance sheet rather than to the profit and loss account. Deferred taxation relating to revaluations were treated similarly. Strikingly, at the same time, Philips' annual report won the 1971 Sijthoff price for the best Dutch annual report in 1971[7]. The Botosan-based disclosure measure is presented in Table II, and from the early 1970s to the mid-1980s, we see a continuous increase in disclosure.

When Van Riemsdijk became CEO, Philips did not have a track record of deploying acquisitions or alliances to achieve its strategic goals. With only a limited number of such

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Year	DSCORE	Annual report (no. of pages)
1971	0.40	48
1972	0.40	48
1973	0.37	48
1974	0.37	48
1975	0.37	48
1976	0.43	56
1977	0.47	60
1978	0.53	64
1979	0.57	64
1980	0.57	60
1981	0.60	68
1982	0.60	88
1983	0.70	88
1984	0.60	108
1985	0.57	100
1986	0.47	100
1987	0.50	101
1988	0.47	98
1989	0.50	99
1990	0.53	72
1991	0.60	81
1992	0.57	76
1993	0.40	76
1994	0.47	84
1995	0.67	88
1996	0.47	96
1997	0.50	120
1998	0.37	144
1999	0.50	172
2000	0.43	171
2001	0.53	186

Notes: This table presents Philips' DSCORE rating, based on the index developed by Botosan (1997) measuring Philips disclosure in its annual report per year. The original items by Botosan (1997) are adjusted to measure voluntary disclosure by leaving out the legally required financial analysis items, as these do not contribute to a measure of voluntary disclose; The items "8 quarters financial information" are excluded and replaced with "10 years historical financial information"; The reason for this change is to allow more insight into the long-term cyclical nature of Philips' business and to take out the short-term quarterly focus, which seems less relevant in our research covering 30 years; Four additional items based on Aksu and Kosedag (2006) are included, called "description of share classes", "description of voting rights", "segment analysis" and "discussion of corporate strategy"

Table II. Annual report quality

transactions, there is no mentioning of the role of corporate restructuring in achieving Philips strategic goals. We find 29 transactions, 8 of which were acquisitions, 5 divestitures and 16 alliances and joint ventures. The share price reactions are summarized in Table III and Figure 1.

The average shareholder price reaction in this period was −0.7 per cent, which results in a total shareholder wealth loss of €386m for this period. Acquisitions accounted for an average price reaction of −1.6 per cent, or a loss of €244m. Joint ventures and alliances accounted for an average price reaction of −0.6 per cent, or a loss of €208m. Divestitures and sell-offs accounted for an average reaction of 0.6 per cent, or a gain of €66m.

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CEO	ACQ.	(N)	JV/ALL	(N)	DIV.	(N)	Total per CEO	(N)
Panel A: Average price reaction per CEO (%)								
Van Riemsdijk	−1.6%	(8)	−0.6%	(16)	0.6%	(5)	−0.7%	(29)
Rodenburg	−0.4%	(8)	−1.1%	(6)	−0.7%	(7)	−0.7%	(21)
Dekker	0.3%	(8)	−1.1%	(21)	−1.3%	(4)	−0.8%	(33)
Van der Klugt	−2.8%	(13)	1.0%	(38)	0.1%	(23)	0.0%	(74)
Timmer	0.3%	(44)	0.1%	(53)	0.3%	(84)	0.2%	(181)
Boonstra	1.1%	(19)	−0.3%	(21)	−1.0%	(73)	−0.5%	(113)
Panel B: Total market value effect per CEO (million euro)								
Van Riemsdijk	−244	(8)	−208	(16)	66	(5)	−386	(29)
Rodenburg	−67	(8)	−63	(6)	−52	(7)	−182	(21)
Dekker	37	(8)	−1,209	(21)	−227	(4)	−1,399	(33)
Van der Klugt	−1,570	(13)	1,525	(38)	−26	(23)	−70	(74)
Timmer	881	(44)	61	(53)	357	(84)	1,299	(181)
Boonstra	5,377	(19)	−558	(21)	−19,611	(73)	−14,792	(113)
Total	4,415	(100)	−452	(155)	−19,493	(196)	−15,530	(451)

Notes: This table presents shareholder price reaction around restructuring announcements per CEO; Shareholder price reactions are calculated are CAR around the announcement date; Panel A presents the average price reaction per announcement type for each CEO; Panel B presents total price reaction per announcement type for each CEO both in percentages and in euro terms

Table III. Share price reactions per CEO

In summary, even though Philips' market conditions are fundamentally changing, this period is characterized by stability. The financial markets hardly react to the restructuring announcements by the company. The CEO plays no role in financial market communications.

5.2 Rodenburg (1977-1981)

In 1977, the first non-family member was appointed as CEO, Nico Rodenburg. He had worked as an engineer for the Philips Technology Development Centre and later moved to the telecommunications division. After about one year, it became clear that this new role was too much for Rodenburg. Behind the scene, his successor, Wisse Dekker, was already taking control (Metze, 1991, pp. 121-122; *Financial Times*, May 13, 1982). In this period, sales improved, but profits lagged behind. In particular, the production models of Japanese producers allowed for much lower prices. In 1980, a rather large restructuring was conducted in consumer electronics. This made Rodenburg the first president to cut jobs in this part of Philips. Many smaller production facilities in Europe were closed down, against the wish of unions and authorities.

In the period 1977-1981, the book value of total assets decreased by 11.4 per cent, and the workforce was reduced by almost 36,000 employees. The market value of equity decreased by €529m (or 24.8 per cent). Net accounting return decreased to an average of 4.1 per cent per year.

Rodenburg's communication with the financial markets focused on Philips' need to reorganize and streamline its operations in the light of the intense Japanese competition. In doing so, he defined a key role for technology for Philips to achieve its financial goals. Philips strategy was aimed at gaining traction in the area of professional products, e.g. computers, defense systems and telecommunication. Under Rodenburg (and later under Dekker and Van Der Klugt), Philips used a variety of accounting techniques such as crediting a gearing adjustment to income, creating a tax expense for deferred tax on realized revaluations, charging exchange gains and losses to equity rather than the profit and loss

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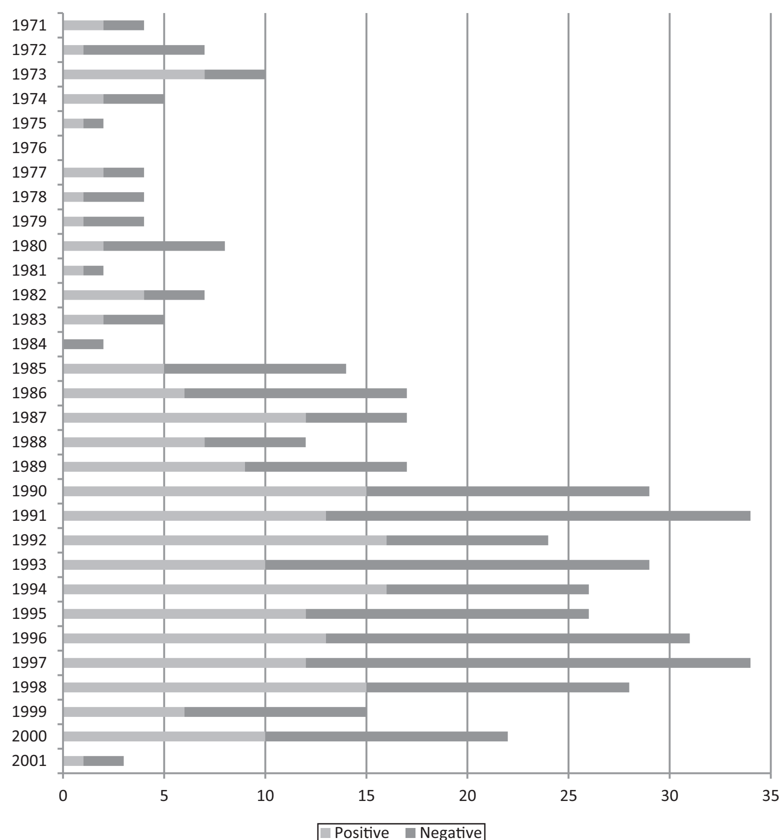

Notes: This figure table presents the number of positive and negative shareholder price reactions per year; shareholder price reactions are calculated are CAR around the announcement date

Figure 1.
Overview of share price reactions, 1971-2001

account, calculating fixed provisions for risks of obsolesce and bad debt at the level of risk estimated at year end, adjusting goodwill directly to equity and calculating pension plan costs based on future wage trends and expected rate of returns of pension assets (Brink, 1992). As before, the period of Rodenburg only has a limited number of announcements. We find a total of 21 transactions, 8 acquisitions, 7 divestitures and sell-offs and 6 alliances and joint ventures. The average shareholder price reaction was −0.7 per cent, which is a total shareholder wealth loss of €182m. Acquisitions accounted for an average price reaction of −0.4 per cent, or a loss of €67m. Joint ventures and alliances accounted for an average price reaction of −1.1 per cent or a wealth loss of €63m. Divestitures and sell-offs accounted for an average price reaction of −0.7 per cent, which is a loss of €52m.

With continuing adverse operating conditions, Philips decreased in size and market capitalization in this period. Although the number of restructuring announcements is

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limited, Rodenburg connected restructuring to the need to improve the deteriorating operational performance. The shareholder price reactions to the announcements are small, as the markets seemed to accept his explanation, even though the firm makes no specific effort to communicate with its investors beyond annual reports and press releases.

5.3 Dekker (1982-1986)

Wisse Dekker built his career in Philips' local operating companies, i.e. the national organizations. In 1948, he started in Asia. In 1966, he was appointed as general manager for the Far East. In 1972, he was asked to come to Europe and had various board positions with Philips in the UK. He returned to The Netherlands in 1979 and joined the board (Van Rietschoten, 2012). Contrary to his predecessors, Dekker had a sales background with a solid international track record. He thanked his presidency to a successful multibillion-dollar order from Saudi Arabia, as well as to the failure of his predecessor. Before Dekker was appointed CEO, Philips traditionally insisted on technological autarky. This strategy required heavy spending in research and development. At that moment, Philips had the world's third largest R&D budget, only after IBM and AT&T. Using many of his business relations with Asian, US and European partners, Dekker deployed a strategy of concluding joint ventures to share R&D efforts to reduce Philips' own R&D spending. This change in strategy took place in 1984, when Dekker was two years in office.

In 1982, when he became CEO of the company, Philips suffered from Japanese competition and failed product launches, such as the V2000 video recorder. Even though Dekker reorganized the company and cut workforces, he became popular with the employees, because he restored the faith in the future of the company (Metze, 1991, pp. 183-187). He was very active in public relations and loved the relationships with other European industry leaders (*Noord-Hollands Dagblad*, August 28, 2012). Dekker has led the way in the participation in many joint ventures, which nearly all failed. When he left the office in 1986, he became chairman of the supervisory board. In the period 1982-1986, the book value of total assets increased with 7.4 per cent, and the workforce increased with 8,000 ftes (or 2.4 per cent). The relative investment in capital expenditure for the period was 1.3 per cent on average per year. During his tenure, the relative investments were, on average, 7.3 per cent per year. Net accounting return in this period more than doubled and increased to an average of 5.2 per cent per year.

Dekker saw acquisitions and joint ventures as a means to concentrate the firm's resources on its most profitable and fastest-growing product lines. Frequent communication with press, analysts and shareholders on M&A became an integral part of Philips' communication strategy, breaking with the tradition. Dekker was very active in public relations and was also known as "the great communicator". He frequently communicated about this change in strategy to the financial markets in interviews, in analyst and shareholder meetings and through publications, such as the annual report (*Noord-Hollands Dagblad*, August 28, 2012). Philips' annual report won the Dutch Sijthoff price for the best annual report in 1986. The importance of Philips share value for management increased with the issuance of bonus shares (1982) to Philips' management.

Although we only registered a limited number of transactions (33 in total), the rise of the number of alliances and joint ventures (21) is remarkable compared to the number of acquisitions (8) and divestitures and sell-offs (4). The average shareholder price reaction was −0.008, and corresponds with a shareholder wealth loss of €1,399m. Acquisitions accounted for an average shareholder price reaction of 0.003, or a gain of €37m. Joint ventures and alliances accounted for an average shareholder price reaction of −1.1 per cent, or a wealth loss of €1,209m. Divestitures and sell-offs accounted for an average shareholder price reaction of −1.3 per cent, or a wealth loss of €227m.

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Dekker's well-voiced and clearly communicated new strategic direction of sharing development efforts with joint venture partners seemed to displease the financial markets, as they responded with negative price reactions to his joint venture announcements. It is interesting that an early effort in communication is not received positively by the market, because of the strategic contents.

5.4 Van der Klugt (1986-1990)

Cor Van der Klugt had a proven track record within Philips before being elected CEO. He successfully led the local Brazilian organization before coming to the headquarters in 1978. As a member of the board, he successfully closed the Bauknecht acquisition and acquired control over the Grundig activities at the right moment in time, in fierce competition with other potential buyers. As a president, probably his biggest achievement has been to re-align the quite independent and autonomous unit, North American Philips subsidiary (NAPC) (Metze, 1991, p. 253). Van der Klugt sold many units and divisions in an attempt to restore Philips results and to compensate for earnings suffering from strong price decline caused by devaluation of the dollar and the yen. In 1988, he put the division of large domestic appliances in a joint venture with Whirlpool and he sold the subsidiary Holland Signaal to Thomson. In 1989, he managed to report record earnings, which actually for 40 per cent were caused by extraordinary items such as the sale of the Paris headquarters and the IPO of Polygram (Metze, 1997, p. 31).

In 1989, Philips' articles of association incorporated the option to issue preferred share, granted to a trust office (the "Stichting Preferente Aandelen Philips") as a takeover defense mechanism, which enhances the room for Philips to negotiate in case of a takeover bid, without affecting shareholder say otherwise. This is generally considered to be a shareholder-friendly anti-takeover device. The importance of Philips share value for management further increases with the incorporation of an annual share options program (from 1986) to Philips' management. Toward the end of the 1980s, Philips' shareholder base became more international. In addition to the listing at the Amsterdam Stock Exchange, a second listing at the New York Stock Exchange was obtained in 1987, while in the same year, a seasoned equity offering (€440m) was placed (Philips NV, 1988). With the growing importance of the capital market for Philips, frequent communication toward press, analysts and shareholders on M&A became an integral part of Philips' communication strategy.

Toward the end of 1989 and the beginning of 1990, Philips' earnings were falling dramatically. Within Philips and within the board, Van der Klugt became more and more isolated, losing grip on the company and the operations. Effects from cost reduction measures did not materialize; operational results were suffering badly from a weakening dollar and weak operational performance in almost all segments. However, toward external stakeholders and toward shareholders (on the AGM of April 10, 1990), Van der Klugt continued to paint a too rosy picture, claiming that the company was still on track. When plummeting 1989 results were released in May 1990, he lost his credibility and was forced to step down in 1990 by Dekker, who had lost faith in him. His resignation was announced on May 14, 1990 (Metze, 1997, pp. 32-33). The general perception is that he has not been very successful in his presidency.

In the period 1986-1990, the book value of total assets initially increased, but started to decrease from its high of €34bn in 1989 to €31.5bn in 1990. The workforce decreased by more than 71,000 employees (or 20.7 per cent). Net accounting return in this period declined to −2.5 per cent on average per year, ranging from −0.402 to 0.098.

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When Van der Klugt became CEO, he publicly stated to continue his predecessors' focus on returns and to improve efficiency and to continue his predecessors' policy of concluding alliances (to improve Philips' position in various markets or to share development efforts). Van der Klugt continued to seek acquisitions and joint ventures to improve the firm's market position. He sold many units and divisions in an attempt to restore Philips' results and to compensate earnings suffering from strong price decline caused by devaluation of the dollar and the yen (Metze, 1991, 261).

We see a strong increase in transactions (to 74 in total) with a further growth of the number of alliances and divestitures (38) compared to the number of acquisitions (13) and divestitures and sell-offs (23). (The average shareholder price reaction was negligible.) Acquisitions accounted for an average shareholder price reaction of −2.8 per cent, or a loss of €1.587m. Joint ventures and alliances accounted for an average shareholder price reaction of 1 per cent, or a gain of €1.525m.

The number of restructuring announcements increases as restructuring becomes more important to achieving Philips' strategic goals. Van der Klugt's prolongation of his predecessor's strategy of sharing development efforts with joint venture partners was well understood by the financial markets, which reacted with a positive price reaction to his announcements.

5.5 Timmer (1990-1996)

Jan Timmer also had built a solid track record within Philips before being appointed. In the period 1983-1987, he brought Philips' daughter Polygram back to profitability. While doing that he bought out Philips' partner, while at the same time, he put a strong effort in refocusing the company to new technological developments such as compact disks – against which there was quite strong opposition within the Polygram management (Metze, 1991, pp. 315-316). After this assignment, he restructured the ailing division Consumer Electronics and cut more than 10,000 jobs. As a candidate for CEO, he received very strong support from Van der Klugt and Dekker against fellow candidate Bouwman (Metze, 1991, pp. 317-318). He was appointed almost 18 months ahead of plan, owing to the early resignation of Van der Klugt.

On the second day of his appointment, he announced that Philips would suffer an enormous loss in that year amounting to almost €1bn, and that significant cost reduction measures needed to be taken (Metze, 1991, pp. 321-322). During his tenure, more than 50,000 people were laid off. Restructuring of this magnitude was unprecedented in The Netherlands and because of this he was given many nicknames such as "the butcher", "the killer" and "the hurricane", which are evidence of a much stronger focus on his person compared to predecessors. His restructuring, also known as "operation centurion", was successful and changed the mindset of Philips employees for the better. Timmer communicated openly about the state the firm was in, therewith creating a platform for the actions that he deemed necessary (Freedman, 1996). He announced his plans to cut R&D (semi-conductor and computers). He initiated R&D projects to develop high-value, software-rich products and services, and concluded R&D contracts with universities and institutions. He launched new alliances (with Nintendo to develop CD-based video games, with Motorola to produce video circuits) and he sold most of Philips' computer business, Magnavox, and the stake in Whirlpool and Matsushita. The increased emphasis on R&D hardly paid off, with high-profile failures, CD-i, DCC and HDTV. After he resigned, he became a member of the supervisory board. The agreement was that, according to common practice with Philips, he would become chairman of the supervisory board, but his successor Boonstra effectively

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blocked this appointment, after which Timmer left and broke off all contacts with Philips (Metze, 1997, pp. 228-229).

In the period 1990-1996, the book value of total assets initially declined from €31.5bn in 1990 to €25.6bn in 1993. From its low in 1993, asset book value increases to €28.5bn in 1996. The workforce is reduced by some 22,000 employees (or 8.2 per cent). Relative investments in capital expenditure (measured in relation to total assets) for this period amounts −1 per cent on average per year. The investments in research and development (measured in relation to total assets) amount to 7.7 per cent on average per year. Net accounting return improved to 8 per cent on average per year.

For 1990-2001, the number of analysts following Philips are analyzed. In the firm's analyst following pattern we note that after an initial increase the number of analysts following Philips remains stable for a number of years (Table IV).

Timmer frequently communicated with analysts and other financial market intermediaries about his strategic intentions. In the first three years of his CEO tenure, Timmer made another unprecedented move: he withheld all dividend payments. Timmer recognized the need to professionalize the investor relations function. In 1994, the Philips annual report for the first time refers to the existence of a separate investor relations department. Finally, under Timmer, Philips abolishes current value accounting[8]. This accounting change is barely motivated in Philips annual report which merely states that "one of the reasons to return to historical cost valuation is to improve the communication with shareholders" (Philips NV, 1992, p. 26). Dutch financial press reacted lukewarm, stating "In an accounting technical sense, all this can be regarded as a step backwards. But when it all becomes so complex that only a specialist can understand it, then it can be said that they have missed their objective. And the less perfect but more understandable method used now should be preferred primarily because it increases comparability with other companies." (*Het Financieele Dagblad*, 1992, p. 3; Schattke and Vergoossen, 1996). However, many changes in Philips' accounting principles were driven by the wish to skim profits in periods of prosperity and enhance it in periods of decline. Consequently, there is no statistical correlation between Philips' reported net income and operating cash flow (Volmer, 2007). Analysts had difficulty interpreting the effects of the

Year	Trading volume (%)	No. of analysts	EPS forecast (%)
1990	1.17	19	11.4
1991	1.26	31	7.3
1992	1.51	37	9.4
1993	1.69	37	12.9
1994	1.86	37	15.7
1995	3.31	36	11.6
1996	2.75	38	10.8
1997	2.99	37	8.5
1998	2.96	32	7.5
1999	3.16	41	5.8
2000	2.30	35	1.1
2001	1.38	29	1.4

Notes: This table presents Philips' share trading volumes applying a volume-liquidity metric as percentage of shares traded per day over number of shares outstanding that day (Bamber, 1986); The liquidity metric is calculated on a daily basis and averaged per year; Number of analysts counts the number of analysts providing an annual earnings forecast for Philips; The annual earnings per share (EPS) forecast is measured at year end following Lang and Lundholm (1993), deflated and averaged over the number of analysts

Table IV. Trading and analyst information, 1990-2001

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accounting changes and the arbitrary use of restructuring charges (Schattke and Vergoossen, 1996). Schattke and Vergoossen (1996) conclude that Philips' financial reporting blurred the potentially adverse effect of the firms' economic conditions. Still, in 1995, Philips investor relations efforts were rated positively; Philips was mentioned among the companies positively distinguishing themselves with respect to investor relations criteria credibility, clarity, disclosure and timeliness; and Philips even won the Investor Relations Award (Rematch, 1995).

The number of transactions more than doubled compared to the previous period, to 181 in total. The effect of a higher number of events can partly be attributed to the length of Timmer's tenure of more than six years. In total, 44 transactions were acquisitions, 84 were divestitures and sell-offs and 53 were alliances and joint ventures (Table V).

The average shareholder price reaction in this period was 0.2 per cent, which is a gain of €1.299m. Acquisitions accounted for an average shareholder price reaction of 0.3 per cent, or a gain of €881m. Joint ventures and alliances accounted for an average shareholder price reaction of 0.1 per cent, or a gain of €61m. Divestitures and sell-offs accounted for an average shareholder price reaction of 0.3 per cent, or a gain of €357m.

Under Timmer, a bold change of strategy was initiated. Philips tried to enter new technological areas while at the same time exiting other areas and product lines. Even though payoff from the new initiatives was very limited, financial markets seem to understand and support the change of direction, given the mildly positive price reactions to the restructuring announcements. At the same time, the attention to the CEO increased, while financial markets became increasingly demanding in terms of accounting and strategic information needs.

5.6 Boonstra (1996-2001)

At the age of 16 years, Cor Boonstra left school prematurely, to join Unilever. In 1974, he switched to Sara Lee, where he ultimately became CEO. After stepping down at Sara Lee on December 31, 1993, Philips president Timmer asked him to join Philips(Metze, 1997, pp. 95-96). His mandate was to give the Philips' brand name new energy. Initially Boonstra wanted to step back, considering that his tasks were too heavy, but Timmer convinced him to stay (Metze, 1997, p. 202). Boonstra took responsibility for the "Let's make things better" campaign (Metze, 1997, p. 206). After two years at Philips, he became the CEO and clearly set the company priority on profitability. The financial markets were very positive about his assignment. His tough management style, his focus on shareholder value and his open contest of the Philips culture caused that analysts and other financial markets intermediaries reported positively (Metze 1997, p. 209). To underscore the much-desired change in culture, he moved Philips headquarters away from its roots in provincial Eindhoven to a new location in Amsterdam.

He clearly set the firm priority on profitability, announcing that only after restoring profitability, strategic matters would be dealt with. He immediately reserved almost €1bn for reorganizations. He also almost immediately announced to cut activities with no or little chance to profitability – therewith indirectly unwinding some of the initiatives of Timmer (Metze, 1997, pp. 230-232). With his main focus to improve profitability, cost reductions were an important theme. He paid attention to the firm's culture, attempting to improve its aggressiveness and responsiveness, while reducing bureaucracy and improving accountability. Strategically, Boonstra focused on limitation of activities and technologies in which he wanted Philips to be leading (Metze, 1997, p. 236). He aimed at mass products for the consumer electronics market. The divestiture of the largest music company in the world, Polygram, is a consequence of this strategy. During the tenure of Boonstra, the market capitalization of Philips grew dramatically.

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Event date	CEO	Announcement	in (%)	in €m
Panel A: Announcements with largest positive shareholder price reaction (either in euro terms or in %) in chronological order				
11/17/1990	Timmer	Intention to sell all Dutch Installation and Services activities to Stork	14.5	377
11/20/1990	Timmer	Alliance with Japanese company Ricoh for the production of fax machines	12.5	354
11/11/1992	Timmer	Joint venture for production of NiCad batteries with Japanese competitor Matsushita	13.8	370
01/15/1993	Timmer	Sale of 35% interest in the Joint venture MEC with Matsushita	12.3	438
4/22/1998	Boonstra	Sale of Optoelectronics which concerned about 300 employees	25.2	7,347
12/4/1998	Boonstra	Sale of PCB factory in Best which concerned about 200 employees	12.0	2,387
5/11/1999	Boonstra	Cash bid of €54m for US company VCS Voice Systems	11.9	3,687
1/13/2000	Boonstra	Launch of first large scale E-commerce alliance with RABO Bank	13.2	6,480
2/22/2000	Boonstra	Completion of sale of worldwide project management activities generating about €300m of annual revenue	13.4	8,549
6/22/2000	Boonstra	Acquisition of US chips production facility with about 950 employees for the Semiconductors business line	3.5	2,555
8/23/2000	Boonstra	Acquisition of US company Optiva (domestic appliances) with about 600 employees	5.2	3,701
8/29/2000	Boonstra	Acquisition of IT firm "Origen" in The Netherlands	8.5	6,153
12/5/2000	Boonstra	Sale of worldwide media activities with about 1050 employees	14.1	7,987
Panel B: Announcements with largest negative shareholder price reaction (either in euro terms or in %) in chronological order				
5/3/1990	Van der Klugt	Acquisition 25% interest in Bang&Olufsson (Denmark) for €45m	−16.3	−692
7/7/1990	Timmer	Acquisition of controlling interest in BTS (Germany)	−9.7	−363
2/24/1993	Timmer	Increasing cooperation with Grundig (Germany) as a result of which the Grundig losses will be consolidated for 100%	−13.2	−415
11/13/1997	Boonstra	Announcement of alliance with Japanese competitor NEC for the Semiconductors business line	−11.8	−2,634
9/15/1998	Boonstra	Worldwide large-scale sale of component factories which concerned about 4,000 employees	−13.7	−2,526
4/1/2000	Boonstra	Announcement of the intention to sell the remaining 24% stake in ASML (The Netherlands)	−10.8	−6,582
5/4/2000	Boonstra	Worldwide sale of component factories which concerned about 3200 employees	−6.3	−4,122
5/5/2000	Boonstra	Partial sale via equity carve out of the components producer EMT (The Netherlands), about 1,000 employees	−6.3	−4,165
6/8/2000	Boonstra	Final announcement of closing the sale of 16% in ASML for an amount of €3bn	−7.2	−4,914
6/30/2000	Boonstra	Acquisition of a 60% stake in MedQUIST (US) for an amount of €1.1bn	−8.4	−5,761
10/6/2000	Boonstra	Sale of (mass) production facilities located in The Netherlands which concerned about 550 employees	−10.7	−6,411

(continued)

Table V. Largest share price reactions

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Event date	CEO	Announcement	in (%)	in €m
12/22/2000	Boonstra	Acquisition of a 16% stake in South Korean company LG Electronics for €505m	−6.9	−3,474
3/28/2001	Boonstra	Alliance with Toolex (in The Netherlands) for joint development of DVD/CD production facilities	−11.7	−4,893
3/30/2001	Boonstra	Intention to sell all worldwide activities of the mobile telecom division (considered non-core)	−8.1	−3,410

Notes: Table V presents the restructuring announcements with the largest shareholder wealth effects measured in percentages and in euro terms; Panel A presents the restructuring announcements with the largest positive shareholder wealth effects; Panel B presents the restructuring announcements with the largest negative shareholder wealth effects

Table V.

In the period 1996-2001, the book value of total assets increased steeply with €9.9bn (or 34.7 per cent), from €28.5bn to €38.4bn. The workforce is reduced by some 60,900 employees (or 24.3 per cent). The market value of equity increased very strongly. It initially increased with more than €52bn from €9.5 to €61.9bn. However, in the subsequent year 2001, the market value of equity declined with more than €20bn (or 33 per cent). Sales per fte (after adjusting for inflation) increased from €124,000 to €174,000 per fte, and inflation adjusted EBITDA per fte for the period increased slightly to €15,000 per fte on average. Relative investments in capital expenditure amounts to 0.4 per cent on average per year. Investments in research and development amounted to 7.5 per cent on average per year. Net accounting return strongly improved to 14.9 per cent on average.

When communicating to shareholders and analysts, Boonstra categorically declined talking about his strategic intentions. Initially, he postponed his financial market communication on the firm's strategy for several times. Ultimately, when a strategy update became unavoidable, he claimed that the strategy had formed itself in practice. Boonstra was heavily criticized by the business media for his lack of strategic vision and his unwillingness to communicate about strategy. After two years at the helm of the company, the market credited him for his cost reduction and rationalization efforts, but openly questioned his skills to create value with Philips. This period coincides with the third year in office of Cor Boonstra, and hints at decreasing investor relations activity (Bushee and Miller, 2012). Boonstra persists in his reluctance to reveal a new corporate strategic direction and consciously avoids communicating about it. Share trading volumes (Table IV) have a significant positive correlation with the absolute value of unexpected earnings (Bamber, 1986). The development of the liquidity of Philips' shares shows that liquidity increased dramatically in the period 1995-2000. The standard deviation for Philips for this period is 0.02-0.03. The increase of the Philips' shares liquidity metric over the years confirms that the financial markets reacted to Philips' unexpected dissemination of information in the period 1995-2000. This result is in line with Bamber (1986). In summary, in the 1990s, a decreasing number of analysts followed Philips, and the forecast variability and dispersion increased. Share trading volumes increased too. In this period, the appreciation of the financial markets of Philips' investor relations declined strongly.

The number of transactions (113 in total) was significantly lower than in the prior period. Nineteen announcements were acquisitions, 73 divestitures and sell-offs and 21 alliances and joint ventures. The average shareholder price reaction was −0.5 per cent,

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or a huge loss of €14.8bn. Remarkably, acquisitions accounted for an average shareholder price reaction of 1.1 per cent, or a gain of €5.4bn, whereas divestitures and sell-offs accounted for an average shareholder price reaction of −1.0 per cent, or a staggering loss of €19.6bn. Joint ventures and alliances accounted for an average shareholder price reaction of −0.003, or a loss of €558m.

As from 1996, appreciation of investor relations activities diminished. In 1997, the lack of clarity on the new strategic direction was reflected in diminishing investor appreciation of the investor relation activities, as Rematch (1997) reports, "that the quest for a new company strategy is mirrored in negative connotations for clarity and openness". Appreciation for Philips' annual report diminished and is even said to distinguish itself negatively from the other Dutch publicly quoted companies. In 1997, Rematch reports that over time, Philips was the company with the highest IR-volatility. In 1998, Rematch reports "disturbing signals": the company is mentioned both positively and negatively with respect to the different investor relations criteria (Rematch, 1998). Initial appreciation for Boonstra when he became CEO diminished in the subsequent years[9].

In 2001, Boonstra was heavily criticized as a bad performer in terms of making a positive contribution to the firm's image, for which he received a "red" card (Rematch, 2001). Philips' annual report won the Dutch Sijthoff price for the best annual report frequently in 1998. In addition to Philips' investor relations rating, Philips' annual report ratings are relevant. In the period 1970-2001, Rematch has rated the appreciation of Philips annual report twice, in 1996 and in 2001. In 1996, the Philips annual report (with 6.9) was rated well below the rating for the main companies (7.24). In 2001, the Philips annual report (with 7.35) was rated significantly better than the rating for the main companies.

Under Boonstra, Philips strategy was limited to a financial focus only, as Boonstra merely focused on restoring profitability. Furthermore, by shying away from in-depth interview and clear communication on his strategic intentions, Boonstra breached with the past in terms of shareholder communication. At the same time, equity markets were buoyant and firm valuations and market capitalizations were at an unprecedented high. The financial markets did not appreciate Boonstra's strategic direction and reacted negatively to his divestitures and sell-offs of part of the company. The prevailing high share values caused huge shareholder price reactions.

6. Discussion and conclusion

Our aim with this case study is to investigate the relation between communication of a firm's strategy by CEOs with shareholders, and to document shareholder price reactions over time, for the case of Philips. We provide insights that empirical studies have not addressed: the price aspects of investor communication around major restructuring announcements in a setting where over the course of time the perception of appropriate investor relations has changed dramatically. Our research question is how Philips CEOs have adapted communication about their strategy to changing demands of the shareholders. We have investigated how Philips under various CEOs has communicated strategic announcements to the exogenously changing markets and we measured the markets' reaction.

We find that the CEOs in the 1970s and 1980s – Van Riemsdijk, Rodenburg, Dekker and Van der Klugt – had typical personal styles and preferences in their communication with financial markets. However, when they were announcing major investment and turn-arounds, the resulting market reactions were limited, and largely disconnected from their personalities. The exception is Wisse Dekker, who faced negative reactions

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despite his communication efforts. In the 1990s, Philips had two consecutive CEOs who were given a lot of attention in the financial media, i.e. Jan Timmer in the first half of the 1990s and Cor Boonstra in the second half of the 1990s. Timmer was famous for tough reorganizations, which made him very popular with the business press and the financial markets. Timmer communicated openly about his views on the firm, therewith creating a platform for the actions that he deemed necessary, which is consistent with changing ideas about investor relations. He frequently communicated with analysts and other financial market intermediaries about his strategic intentions and he professionalized the investor relations function in Philips. The market seemed to understand his strategic direction given the mildly positive price reactions to his restructuring announcements.

The relation with financial markets changed with Cor Boonstra, despite his recognizable management style and perceived focus on shareholder value. He mainly focused on restoring Philips' earnings through cost reductions and change of culture. Boonstra narrowed Philips' strategy aiming at mass products for the consumer electronics market. His divestitures were a consequence of this strategy. At the same time, Cor Boonstra openly declined to communicate his strategic intentions. Initially, he postponed his strategy update to the financial markets. Later on, when a strategy update became unavoidable, he claimed that the strategy had formed itself in practice. Press and business media heavily criticized Boonstra for his lack of strategic vision and his unwillingness to communicate about strategy. The market openly credited him for his cost reduction and rationalization efforts, but questioned his skills to create value with Philips. Investor relation firm Rematch (2001) reports "that the quest for a new company strategy is mirrored in negative connotations for clarity and openness". Analyst coverage declined in the late 1990s, which can be attributed to decreasing openness and poor communication. In this period, Boonstra persisted in his reluctance to reveal a new corporate strategic direction and consciously declined communicating about it.

The case analysis of Philips and its CEOs demonstrates that in financial communication, the personal style of the CEO has become increasingly relevant since the 1990s and the expectations in financial markets about the quality and contents of firm information have risen. Moreover, this implies that the shareholder reactions to CEO announcements seem to be independent of investor relations activities. In our case study, the fierce market reactions in the late 1990s show that a lack of communication leads to a punishment in terms of stock price reductions. Given the stock-related compensation packages, these reactions will affect CEOs directly.

In our view, this is a relevant observation for three reasons. First, Philips is a global firm and the historical developments of this player are interesting as a business historical case. We document a financial perspective over three decades, including detailed measurements of financial market interactions. Second, as argued by Zajac and Westphal (2004) and Bendickson *et al.* (2016), among others, agency theory has had a profound effect on academic work and management practices. Our case study indicates that the divergent interests and information problems in corporations induce tension between CEOs and shareholders, which can be studied by investigation of investor relations efforts and stock price reactions upon major announcements. Finally, our third contribution is that we show that the event study method advocated by MacKinlay (1997) and widely used in finance and management studies as a measure of value creation in corporate decisions cannot be used without an awareness of the changed environment in which announcements and prices reactions are observed.

For future research, our work presents a number of opportunities. First of all, the historical development of investor relations has hardly received any attention in academic

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research and further descriptions of the development of this corporate activity are welcome, in particular in relation to the development of the role of financial analysis. Second, as we demonstrate large differences between CEOs in terms of financial market communication, more large sample research in the past decades of the twentieth century and in the twenty-first century may be fruitful. For example, a test of the hypothesis that the quality of CEO communication about strategic directions positively affects stock prices – higher prices and lower volatility – may be relevant, in particular with interaction effects of investor relations and annual report quality. In our view, the Philips case study does not allow for such tests, but may be an inspiration for further work.

Notes

1. Inflation adjustments are based on CPI data on www.iisg.nl to 2001 euro amounts.
2. For The Netherlands, De Jong *et al.* (2007) study 865 acquisitions over the period 1993-2004 and find a similar pattern, as the average effect is positive (1.1 per cent), but the variation in wealth effect is very large: 80 cases experience a change in value of €150m or more.
3. The index of Botosan (1997) is based on recommendations provided in the American Institute of Certified Public Accountants (1994) study of business reporting (i.e. the Jenkins Committee report), the SRI International (1987) survey of investor information needs and the Canadian Institute of Chartered Accountants (1991) study of the annual report. This index is adjusted to reflect voluntary disclosure by excluding the legally required items. In our index, four more items are included based on Aksu and Kosedag (2006), called "description of share classes", "description of voting rights", "segment analysis" and "discussion of corporate strategy".
4. The sixth CEO (Boonstra) postponed communication with regards to strategy and made several public statements to this effect. We therefore analyze interviews of the first 36 months in which he is in office.
5. Over time the Philips family has diminished their influence through a gradual transfer of the priority shares to a foundation. By 2002, all ten priority shares had been transferred from the Philips family to this Dr A.F. Philips Stichting. In 2005, the priority shares were cancelled by a shareholder resolution.
6. For the first four years in this period, R&D data were not presented in the annual report.
7. Philips had won the Sijthoff price – initiated in 1953 – also in 1954 and 1959. In the 1950, this was more than any other firm and is an impressive sequence, given that a winner is excluded for the next five years. Philips is known for its innovations in accounting systems. For example, in 1954, the president of Philips, P.F.S. Otten, presented his views on annual reports in the shareholder meeting, a statement including four explicit requirements for reports, which were highly cited in the press (Zeff *et al.* (1992), p. 90). Among others, Otten ruled out the use of hidden reserves, a widespread practice in those days.
8. In line with a move to US GAAP.
9. Since 1998, Janus Investments US (a US quoted investment company) with a shareholding of 5.41 per cent is the only registered holder exceeding the lowest (5 per cent) threshold.

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