

Shareholder and Stakeholder Orientations

Around the World



Especially the title!!!

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Motivation

Oliver Hart and Luigi Zingales
2016 GCGC in Stockholm

Hart and Zingales

- Q: Is the Responsibility of Business to Pursue Shareholder Value?
- A: If shareholders have ethical concerns, the answer may be no.

CSR is hot!

- But, most (finance) papers characterize CSR as
 - a firm-level attribute: KLD data
 - a country-level attribute: co-determination
- Hart and Zingales (2016) highlights that personal beliefs are important
 - “ethical concerns”, “shareholder interests”, “founder to include a mission statement in their charters”

What we do

- We survey directors of listed companies in 23 countries
- Key measures of interests:
 - Attitudes towards stakeholders/shareholders
 - Values (Schwartz)
 - Personal characteristics

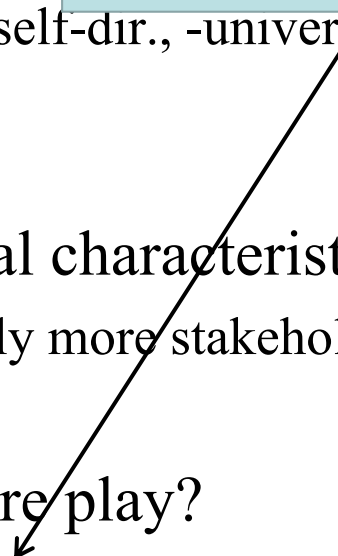
The questions

- Do directors vary in their attitudes towards stakeholders?
- What, if any, role do personal values play?
- What, if any, role do personal characteristics play?
- What, if any, role does culture play?

The (tentative) answers

- Do directors vary in their attitudes towards stakeholders?
 - Yes.
- What, if any, role do personal values play?
 - Values (power, achievement, self-dir., -universalism) seem to exhibit consistent pattern
- What, if any, role do personal characteristics play?
 - Women seem to be consistently more stakeholder-oriented than men
- What, if any, role does culture play?
 - Tentative findings: negative correlation between stakeholder attitudes and labor protection and trust

This seems consistent with Hart and Zingales: firms have a role to play when shareholder objectives cannot be achieved through other means



Why is this important?

- Why do executives do what they do?
- Are there limits to policy/law/institutions?
- If we decide CSR is important, how do we implement it?

Background: Adams, Licht and Sagiv (2011)

- Surveyed directors in Sweden
- Key measures of interests:
 - Attitudes towards stakeholders/shareholders
 - Values (Schwartz)
 - Personal characteristics

Shareholderism-index

- Confront directors with vignettes derived from seminal court cases involving shareholder-stakeholder conflicts
 - Consumers: *Dodge v. Ford* (1919)
 - Employees: *Parke v. Daily News* (1962)
 - Creditors: *Credit Lyonnais v. Pathé* (1991)
 - Community: *Shlensky v. Wrigley* (1968)
 - Corporate philosophy (Tetlock, 2000)
- Index: average of responses

Example: Dodge v. Ford (1991)

Corporation F is a manufacturer of consumer goods. Despite considerable competition, Corporation F is a highly profitable company thanks to patented technology and manufacturing know-how. In recent years, the company has been paying out only small amounts as regular dividends. The company now contemplates ways for using its very high capital surplus.

Suppose you are a director in F. To what extent would you agree with the following propositions?

The company should...	Strongly agree	Moderately agree	Slightly agree	Slightly disagree	Moderately disagree	Strongly disagree
reduce the price of its products to benefit consumers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
distribute virtually all of its undistributed profits to its shareholders.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Example: Tetlock (2000)

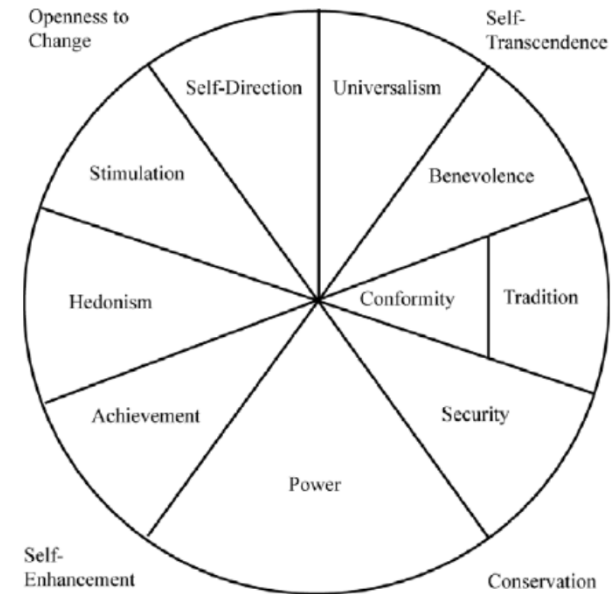
Corporation X is considering updating its Web site. A consultant proposes to post one of the following statements under *Corporate Philosophy* as a statement from the board of directors.

Suppose you are a director in X. To what extent would you agree with the following propositions?

The company should adopt the following statement as its corporate philosophy and post it on its Web site.	Strongly agree	Moderately agree	Slightly agree	Slightly disagree	Moderately Disagree	Strongly disagree
‘We believe that our corporation should have one overriding purpose—to create value for shareholders. If every corporation were faithful to this mission, as we are, the net long-term result would be a vibrant economy that produces the greatest prosperity for the greatest number.’	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
‘We believe that our corporation should strive to achieve a variety of sometimes conflicting goals. These include providing competitive returns to shareholders, ensuring fair treatment of employees, behaving responsibly toward customers, maintaining good relationships with suppliers and local communities, and pursuing reliable social and environmental policies. If every corporation were faithful to these multiple missions, as we are, the net long-term result would be a fundamentally more decent and just society.’	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Values

- Personal Values
 - Conceptions of the desirable
 - Trans-situational criteria or goals
 - Linked to behavior, likely causally
 - Schwartz (1992, 2009)
 - 10 value types



Adams, Licht and Sagiv (2011)

- Hypotheses: support for shareholder wealth maximization ↑ as
 - power and achievement ↑
 - universalism and benevolence ↓
 - self-direction ↑
 - stimulation ↑

Table 3a. Shareholderism regressions: values, roles, and other personal factors

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Power (PO)	0.17** [0.05]	0.23** [0.07]	0.11* [0.05]	0.12* [0.06]	0.12* [0.07]	0.14** [0.07]	0.10* [0.06]	0.11* [0.06]	0.12* [0.06]
Self-direction (SD)	0.16** [0.05]	0.13** [0.06]	0.07* [0.05]	0.07* [0.05]	0.08* [0.05]	0.07* [0.05]	0.05 [0.06]	0.07* [0.05]	0.07* [0.05]
Achievement (AC)	0.15** [0.06]	0.21** [0.07]	0.08+ [0.05]	0.10* [0.06]	0.10* [0.06]	0.11* [0.06]	0.09+ [0.06]	0.09+ [0.06]	0.11* [0.06]
Universalism (UN)	-0.18** [0.08]	-0.18** [0.08]	-0.15** [0.07]	-0.12** [0.07]	-0.14** [0.07]	-0.12** [0.06]	-0.11** [0.06]	-0.12** [0.07]	-0.15** [0.06]
Entrepreneurship		-0.12+ [0.08]		-0.04 [0.08]	-0.05 [0.08]	-0.05 [0.07]	-0.01 [0.08]	-0.04 [0.08]	-0.06 [0.07]
Employee rep. (ER)			-0.44** [0.08]	-0.42** [0.08]	-0.39** [0.09]	-0.45** [0.11]	-0.47** [0.12]	-0.42** [0.09]	-0.47** [0.10]
Gender (male)				0.16** [0.08]	0.16** [0.08]	0.17** [0.08]	0.17** [0.08]	0.16** [0.08]	0.17** [0.08]
Age				-0.08* [0.00]	-0.08* [0.00]	-0.08* [0.00]	-0.08* [0.00]	-0.08* [0.00]	-0.08* [0.00]
CEO				-0.03 [0.07]	-0.01 [0.08]	-0.03 [0.07]	-0.03 [0.07]	-0.03 [0.07]	-0.03 [0.07]
Tenure				0.07* [0.01]	0.07* [0.02]	0.07* [0.01]	0.07* [0.01]	0.07* [0.01]	0.07* [0.01]
# Directorships				0.10** [0.03]	0.10** [0.03]	0.10** [0.03]	0.10** [0.03]	0.10** [0.03]	0.09** [0.03]
Equity holding					-0.01 [0.09]				
PO* ER						-0.05 [0.09]			
SD* ER							0.02 [0.13]		
AC* ER								0.02 [0.12]	
UN* ER									0.08 [0.12]
Observations	626	626	626	626	564	626	626	626	626
R-squared	0.21	0.21	0.37	0.41	0.41	0.42	0.42	0.41	0.42

Dependent variable: shareholderism stances (higher scores reflect higher shareholderism). Standardized beta coefficients. Robust standard errors, clustered at firm level, are in brackets. **, *, + significant at 0.01, 0.05, 0.10, respectively.

Adams and Licht (2016)

- An international version of Adams, Licht & Sagiv (2011)
 - Email-driven online survey - several languages
 - US (~400), UK (~60), India (~50), Israel (~60), German (~50), ...
- Vignettes are:
 - Consumers - *Ford v. Dodge* (1919)
 - Employees - *Parke v. Daily News* (1962)
 - Creditors - *BCE v. 1976 Debentureholders* (2008)
 - Community - *Shlensky v. Wrigley* (1968)
 - General philosophy - Tetlock (2000)

finalcountry	Freq.	Percent	Cum.
Australia	127	11.45	11.45
Austria	2	0.18	11.63
Canada	142	12.80	24.44
Germany	32	2.89	27.32
Hong Kong	4	0.36	27.68
India	59	5.32	33.00
Ireland	5	0.45	33.45
Israel	78	7.03	40.49
Italy	13	1.17	41.66
Jordan	4	0.36	42.02
Korea	8	0.72	42.74
Kuwait	7	0.63	43.37
Malaysia	3	0.27	43.64
Mexico	6	0.54	44.18
Peru	4	0.36	44.54
Saudi Arabia	5	0.45	45.00
Singapore	5	0.45	45.45
South Africa	28	2.52	47.97
Spain	5	0.45	48.42
Switzerland	29	2.61	51.04
Taiwan	5	0.45	51.49
UK	76	6.85	58.34
US	462	41.66	100.00
Total	1,109	100.00	

Basic summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
NSHRM8	1,010	3.503218	.8258001	1	5.875
NSHRM10	1,010	3.398911	.7865626	1	5.9
cpower	1,109	.5529757	.7531614	-1.691667	3.025
cachiev	1,109	.0340397	.7913346	-2.6	3.325
cselfdir	1,109	-.8318305	.6267216	-2.575	1.55
cuniv	1,109	-.2854674	.5959047	-2.208333	2.05
female	1,109	.1172227	.3218306	0	1
Age	921	56.68458	10.46249	23	83

Preliminary Results

	(1)	(2)	(3)	(4)	(5)
Power	0.10 ***	0.09 ***	0.08 **	0.08 *	
Self-Direction	0.08 ***	0.09 ***	0.09 ***	0.10 ***	
Achievement	0.09 ***	0.09 ***	0.06 ***	0.06	
Universalism	-0.25 ***	-0.24 ***	-0.25 ***	-0.26 ***	
Independent		0.14 ***	0.11 **	0.13 **	
Gender (female)		0.24 **	0.20 *	0.16 *	
Age		0.32 **	0.32 **	0.24	
Common Law	0.01	-0.03			
Firm Country FEs					
India			0.16 ***	0.14	
Germany			-0.04	-0.18	
US			-0.07 ***	-0.27	
UK			-0.13 ***	-0.25	
Switzerland			-0.27 ***	-0.36	
Other			Yes	Yes	
Director Country FEs			No	Yes	
Observations	1010	921	921	921	
R-squared	0.09	0.10	0.13	0.13	

Preliminary results

- Shareholderism in countries with $n > 20$

finalcountry	ones	NSHRM8	NSHRM10
Switzerland	29	3.1296296	3.1666667
Australia	127	3.2574153	3.1720339
Canada	142	3.3905109	3.2824818
Germany	32	3.3317308	3.35
UK	76	3.451087	3.3521739
US	462	3.5671463	3.4388489
Israel	78	3.5532787	3.4983607
India	59	3.9768519	3.8037037
South Africa	28	4.0046296	3.9592593

Shareholderism and law $n \geq 20$

VARIABLE	(2) NSHRM8	(3) NSHRM8	(5) NSHRM8	(6) NSHRM8	(7) NSHRM8	(8) NSHRM10	(9) NSHRM10	(11) NSHRM10	(12) NSHRM10	(13) NSHRM10
DLLSASDI	0.128 [0.33]					0.030 [0.10]				
LLSdisclos		0.578* [2.30]					0.318 [1.28]			
BLabProt			-0.259 [-0.43]					-0.009 [-0.02]		
BSoclSec				-1.636*** [-5.87]					-1.391*** [-4.72]	
AJobSec					-0.267** [-3.51]					-0.188* [-2.40]
Constant	3.424*** [12.85]	2.998*** [12.14]	3.584*** [25.46]	4.634*** [26.32]	3.710*** [64.28]	3.385*** [16.32]	3.123*** [12.60]	3.408*** [29.93]	4.361*** [22.70]	3.529*** [55.13]
Observatio	936	936	936	936	794	936	936	936	936	794
R-squared	0.000	0.009	0.001	0.038	0.016	0.000	0.003	0.000	0.030	0.009
Adjusted R	-0.000660	0.00828	-0.000120	0.0374	0.0150	-0.00105	0.00204	-0.00107	0.0294	0.00749
Robust t-st										
*** p<0.01,										

Shareholderism and culture $n \geq 20$

VARIABLE	(2) NSHRM8	(3) NSHRM8	(16) NSHRM8	(17) NSHRM8	(20) NSHRM10	(21) NSHRM10	(34) NSHRM10	(35) NSHRM10
TrustW6	-0.023*** [-8.58]				-0.021*** [-7.08]			
TrustW45		-0.016** [-2.75]				-0.017** [-3.33]		
ITradRat6			-0.295* [-1.97]				-0.206 [-1.40]	
ISurvSelf6				-0.311*** [-4.08]				-0.303*** [-4.63]
Constant	4.408*** [42.36]	4.127*** [17.22]	3.508*** [65.34]	3.927*** [37.73]	4.205*** [34.64]	4.040*** [19.53]	3.400*** [69.36]	3.809*** [44.85]
Observatio	642	936	875	875	642	936	875	875
R-squared	0.055	0.022	0.013	0.036	0.048	0.025	0.007	0.038
Adjusted R	0.0532	0.0207	0.0118	0.0354	0.0463	0.0242	0.00583	0.0370

Robust t-st

*** $p < 0.01$,

Conclusions

- Patterns in Adams, Licht and Sagiv (2011) are not a “just Sweden” effect
- Personal values appear to matter
- Culture appears to matter

Implications

- Diversity may matter
- Common prior assumption may be violated
- Group decision-making on boards may be more complex than we think
- But, we do not yet know how individual values aggregate at the board level