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SHAREHOLDERS AND STAKEHOLDERS: HOW DO DIRECTORS DECIDE?

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This study examines how directors make decisions that involve shareholders and other stakeholders. Using vignettes derived from seminal court cases, we construct an index of directors' shareholderism as a general orientation on this issue. In a survey of the entire population of directors and CEOs in public corporations in one country, we find that directors' personal values and roles play an important part in their decisions. Directors and CEOs are more pro-shareholder the more they endorse entrepreneurial values—specifically, higher achievement, power, and self-direction values and lower universalism values. While employee representative directors exhibit a lower baseline level of shareholder orientation, they nonetheless often side with shareholders.

INTRODUCTION

Few issues in the fields of strategy and corporate governance remain as contested as the topic of shareholders and stakeholders. But while a great amount of research addresses this issue from descriptive, instrumental, and/or normative perspectives (Donaldson and Preston, 1995), fewer studies examine the decisions of actual managers and no study, to our knowledge, addresses this question at the level of board members. Personal attributes of corporate elites may influence their behavior and motivate their organizational approaches (Fiss and Zajac, 2004; Hiller and Hambrick, 2005). Policy makers, however, all too often rely on directors' external attributes—for example, affiliation or independence—in an effort to predict or guide their behavior. Strategic decision processes are also shaped by contextual factors, including the corporate environment (Papadakis, Lioukas, and Chambers, 1998; Jensen and Zajac, 2004). The factors underpinning the decisions of corporate elite members (directors and top executives) at the *individual* level remain unclear. Understanding the relative importance of personal attributes, external attributes, and contextual factors is thus a crucial step toward better understanding how boards function and how institutions may affect the conduct of directors and firms.

In a recent dialogue titled 'Toward Superior Stakeholder Theory' (Agle *et al.*, 2008: 171), Jensen opined: '[A]s I step back and see the debate about stakeholder theory versus stockholder theory I believe we are involved in a small scale example of the problems surrounding conflicts over values. And there is way too much noise, way too much sloppy thinking, and way too little empirical evidence present.' The current study takes up this challenge, at least in part. We advance a theory and examine empirically how board members' personal values (as operationalized by

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Schwartz, 1992), as well as their specific role on the board, may predispose a shareholder-oriented or stakeholder-oriented stance and affect their decisions in stakeholder-shareholder dilemmas.

At first glance, there is little dilemma to deal with. In the standard formulation of U.S. law, the objective of the business corporation is to enhance corporate profit and shareholder gain (American Law Institute, 1994: Sec. 2.01).[1] Directors consequently owe their duties to the company as a whole and to shareholders. The law allows directors to consider other interests as long as they relate to the long-term interests of shareholders. The law in many other jurisdictions is substantially similar.

In practice, things are more complex. In a survey of board members in Canadian firms, one director said: 'Nothing is more important than good corporate governance. It's shareholder value... Stakeholder value is also important... It's not shareholder value by itself, but includes stakeholder value such as society, communities, etc., who produce dividends for shareholders. *You have to weigh these things for good corporate governance'* (Leblanc and Gillies, 2005: 26–27, emphasis added). Lorsch and MacIver (1989), in a survey of directors in Standard & Poor's 400 firms, found that the majority consider themselves accountable to stakeholders more than to shareholders. In a typical statement, one interviewee said: 'You have to consider, at all times, all of your stakeholders' (1989: 43). Lorsch and MacIver maintain that board discussions 'often resemble a charade where directors, working toward the corporation's long-term interests, avoid revealing their standards and criteria or their deep belief in the need for a broad [stakeholder] perspective.' (1989: 49).

We examine factors underpinning board members' orientations toward shareholders and stakeholders—whether and why some directors systematically favor maximizing value for shareholders, whereas others balance it against the interests of other stakeholders, such as employees, consumers, or the community. In particular, we seek to identify the beacons they rely on for navigating in a theoretically clear but practically murky legal landscape and how these beacons work. These beacons are the weights implied by the Canadian director quoted above, the 'standards and criteria' that Lorsch and MacIver refer to, and the elements that comprise board members' 'normative belief structures' (Fiss and Zajac, 2004: 502).

That firms must strategically manage their relations with all stakeholders is widely understood at least since Freeman's (1984) stakeholder theory. But how individual board members approach this task is less well known. Only a handful of research studies examine the shareholder-stakeholder problem at the individual level of analysis. Agle, Mitchell, and Sonnenfeld (1999), for example, examine whether personal values of American chief executive officers (CEOs) are linked to the salience of different stakeholders in their eyes. Their study, based on value items from Rokeach (1973), yields mostly insignificant results in this respect.[2]

The current study advances a new theory on the factors that guide corporate elite members in strategic decisions involving shareholder-stakeholder conflicts. We propose that directors may harbor a general stance on the primacy of shareholders. We term this stance 'shareholderism' to denote its ideology-like nature. Shareholderism is a motivated, principled approach that generally considers it a desirable strategy to enhance shareholder value. An alternative approach to shareholderism, which we call 'stakeholderism,' is equally principled, yet views shareholders as one among several stakeholders whose interests deserve consideration. We contrast shareholderism with stakeholderism as ideal-type, polar strategies. Between them resides a continuum of intermediate stances that find merit in both views. There may be purists who subscribe to strong versions of either view regardless of the circumstances. Most decision makers, however, will follow their principles to find a middle ground depending on the context.

We examine how personal factors such as values, and contextual ones such as professional role, may affect board members' stances and decisions. Specifically, we hypothesize that board members will endorse corporate actions that benefit

[1] This objective may be qualified by ethical considerations, but courts have not used this qualification.

[2] Shafer, Fukukawa, and Lee (2007) found that values (based on Schwartz, 1992) are associated with personal ethical attitudes related to corporate social responsibility (CSR). CSR is not within the purview of this study, however. For recent analyses see Barnett and Salomon (2006); Margolis, Elfenbein, and Walsh (2007); Orlitzky, Schmidt, and Rynes (2003). More remotely, in a sample of mid-level U.S. managers, Tetlock (2000) found that political conservatism positively predicted a preference for a monist, shareholder-focused corporate philosophy and negatively for a pluralist, stakeholder-oriented philosophy.

shareholders the more they hold values that are compatible with the economic interests of equity investors—values that emphasize wealth attainment, competitiveness, and venturing, which we characterize as entrepreneurial. We further expect board members who represent a particular non-shareholder constituency (employee representatives) to exhibit a stakeholderist stance in general because their role calls on them to balance the interests of several constituencies.

To test our theory, we develop a novel shareholderism index using vignettes that are based on seminal court cases in which directors were sued for their decisions in shareholder-stakeholder dilemmas. With respect to the community, for instance, the vignette adapts the case of the Chicago Cubs, whose board decided to forego income and profits with its refusal to install lights and hold night baseball games in order to avoid what Philip Wrigley called 'a deteriorating effect upon the surrounding neighborhood' (Shlensky v. Wrigley, 1968). We presented these vignettes to directors in Sweden, a country that is a useful laboratory for such a study. Unlike many other countries, in Sweden it is possible to survey the entire population of directors of all public corporations. A special feature of Swedish corporate governance—the presence of union-appointed directors on the board—allows one to investigate role effects and possible consequences of board composition. Because we utilize a universal model of personal values our results are not limited to Sweden, however.

We find support for the existence of shareholderism as a general orientation of siding with shareholders in different situations. Emphasizing values that express entrepreneurial motivations, such as power and achievement values and (to a lesser extent) self-direction values, and de-emphasizing universalism values appears to lead to higher shareholderism. Employee representatives exhibit lower shareholderism. Values explain the stances of directors' shareholderism above and beyond other personal characteristics, which include their role on the board, gender, and age, and firm-level attributes, such as size and performance.

Our study makes several contributions to the research on strategic management and corporate governance. First, we theorize and generate hypotheses about stakeholders in a new theoretical framework with universal applicability. Second, we may be the first to cover the entire population of board members in public corporations in a country, thus limiting concerns about sample selection. Third, we examine the top echelon of decision makers in firms, which has been under-researched notwithstanding its crucial role in strategy formation and corporate governance. Fourth, we assess likely responses to realistic shareholder-stakeholder dilemmas by using vignettes that are based on seminal court cases. Fifth, we provide evidence on likely consequences of employee representation on the board.

THEORY AND HYPOTHESES

Background: values

Because values are pivotal in the current study, we begin with a brief background. Personal values are abstract desirable goals that serve as guiding principles in peoples' lives (Kluckhohn, 1951; Rokeach, 1973; Schwartz, 1992). Among the numerous psychological factors on which individuals may differ, values emerge as particularly central. Hitlin and Piliavin (2004) suggest that values occupy an important place within individuals' social psychology. Schwartz (2009) proposes that the structure of values may point the way toward a unifying theory of human motivation (see also Hitlin 2003; Rohan, 2000).

Values differ from other personal attributes in several important ways. First, unlike specific goals or attitudes, which usually refer to specific objects or situations, values transcend specific situations. Thus, for example, striving to pay employees fairly is a specific attitude or goal, whereas concern for social justice is a value. Unlike traits and motives that may be unconscious, people are cognitively aware of their values in ways that enable them to think and communicate about them (Roccas *et al.*, 2002). The theory of values defines them as inherently desirable, as they represent what most people consider important and worthy (Rokeach, 1973). Goals that are not considered worthy or desirable by most people (e.g., hate, jealousy) are not considered as values. Finally, values differ from other personal attributes because they are ordered by their subjective importance. They thus form a hierarchy of value priorities: the higher a value in one's importance hierarchy, the more likely it is to affect the way one perceives

Table 1. The Schwartz individual-level values and representative items*

Security	Safety, harmony, and stability of society, of relationships and of self (family security, national security, social order, clean, reciprocation of favors)
Conformity	Restraint of actions, inclinations and impulses likely to upset or harm others and violate social expectations or norms (self-discipline, obedient, politeness, honoring parents and elders)
Tradition	Respect, commitment and acceptance of the customs and ideas that traditional culture or religion provide (accepting my portion in life, humble, devout, respect for tradition, moderate)
Benevolence	Preservation and enhancement of the welfare of people whom one is in frequent personal contact (helpful, honest, forgiving, loyal, responsible)
Universalism	Understanding, appreciation, tolerance and protection for the welfare of all people and for nature (broadminded, wisdom, social justice, equality, a world at peace, a world of beauty, unity with nature, protecting the environment)
Self-direction	Independent thought and action-choosing, creating, exploring (creativity, freedom, independent, curious, choosing own goals)
Stimulation	Excitement, novelty and challenge in life (daring, a varied life, an exciting life)
Hedonism	Pleasure and sensuous gratification for oneself (pleasure, enjoying life)
Achievement	Personal success through demonstrating competence according to social standards (successful, capable, ambitious, influential)
Power	Social status and prestige, control or dominance over people and resources (social power, authority, wealth)

* For the sake of consistency, the wording follows that of Schwartz (1992, 2007), based on his survey instruments.

and interprets situations and events, as well as one's preferences, choices, and actions (Schwartz, 1992).

To conceptualize and measure values, we use the leading theory of personal values from Schwartz, which has been validated in cross-cultural research in more than 200 samples from over 65 countries (Schwartz, 1992, 2007; Smith, Bond, and Kagitcibasi, 2006). This theory holds that values differ in the motivational goals to which they are directed and distinguishes 10 universal basic values, concise definitions and examples of which are provided in Table 1. While individuals recognize the same system of values, they differ in the *relative* importance they ascribe to different values. All values represent desired goals; however, it is impossible to attain all values at once. Some values are compatible with each other—they reflect compatible motivational goals that could be attained at the same time. Other values conflict with each other—actions that promote one of them are likely to impede the attainment of the other. The dynamic relationships among them can be summarized as two basic conflicts: the first is between openness to change (self-direction and stimulation) and conservation (tradition, conformity, and security) values; the second contrasts self-enhancement (power and achievement) versus self-transcendence (benevolence and universalism) values.

Values affect the way people perceive and interpret situations and events (e.g., Gandal *et al.*, 2005; Sattler and Kerr, 1991; Van Lange and Liebrand, 1991). Consequently, values affect peoples' decisions, choices, and behavior (e.g., Meglino and Ravlin, 1998; Rockeach, 1973; Verplanken and Holland, 2002). For example, evidence suggests that values are related to creativity (Dollinger, Burke, and Gump, 2007; Kasof *et al.*, 2007), reactions to organizational change (Sverdlik and Oreg, 2009), cooperation versus competition in social dilemmas (Sagiv, Sverdlik, and Schwarz, 2011) and conflict resolution style (Morris *et al.*, 1998). Importantly, the evidence also suggests that these relations are causal: important values lead to actions consistent with them (Sagiv *et al.*, 2011; Verplanken and Holland, 2002).

To illustrate how this theory works, consider a CEO who has to set a payment policy and mulls over how egalitarian this policy should be. The decision to pay top executives considerably more than non-managers will express achievement values (that reflect a motivation to exhibit competence and success) and the compatible power values (that reflect a motivation to gain wealth and control). This decision cannot promote—indeed, it blocks—the attainment of equality, which universalism values express. Recall that all values are desirable and are, hence, of some importance to all people. Thus, the CEO in question most likely cherishes both achievement and universalism values. Yet, in designing a payment system, the CEO will choose which value to act on with a view to acting in the best interests of the firm. Another CEO, with different value priorities, may reach a different decision, as he or she gives different weights to these same values.

Self- and other-regarding values in management

Values and related normative concepts play a major role in strategic management (Freeman, Gilbert, and Hartman, 1988). Jones, Felps, and Bigley (2007), for instance, describe a range of organizational stakeholder cultures on a continuum between self-interested and other-regarding poles, which they use to refine stakeholder salience theory from Mitchell, Agle, and Wood (1997). Bosse, Phillips, and Harrison (2009) discuss the extension of fairness perceptions to all stakeholders of the firm. These research studies deal with the organizational level of analysis. Mitchell *et al.* (1997) examine the individual level, and maintain that managerial values concerning self-interest or self-sacrifice may moderate the stakeholder-manager relationship by affecting stakeholder legitimacy. As noted above, empirical evidence on the role of personal values in this respect is scant.

Self-regarding versus other-regarding motivations map onto Schwartz's self-enhancement/self-transcendence dimension, both conceptually and empirically.[3] Because values are transsituational criteria that guide people in their assessment of actions in terms of legitimacy and desirability, they apply not only to one's own actions but also to actions by others, including corporations. It stands to reason that values operate when board members discharge their legal and professional duties (to which we return in detail below). Recall Leblanc and Gillies's (2005: 26–27) interviewee who said: 'It's not shareholder value by itself, but includes stakeholder value... You have to weigh these things...' Values, we argue, serve precisely for this weighing of alternative strategies as the standards and criteria mentioned by Lorsch and MacIver (1989) or the constitutive elements of corporate elites' normative belief structures (Fiss and Zajac, 2004). In this view, directors will tend to consider the best interests of the firm and endorse strategies that are consistent with their values.

A pluralist corporate governance is premised on a view of many societal members as constituencies whose welfare deserve consideration. A broad other-regarding concern for multiple stakeholders is especially reflected in universalism as the motivation to understand, accept, and care for other people (whether familiar or not), humanity, and the environment. It is also consistent (though to a lesser extent) with benevolence, which reflects the motivation to help others in one's ingroup. In the corporation, these could be the employees. In the current theory, shareholder wealth maximization is consistent with an emphasis on power and achievement values. These values reflect appreciation for wealth attainment and control (power) and for success in competitive settings through hard work, self-challenge, and persistence (achievement). These goals are promoted by a focus on maximization of profits and share price as ostensible indicators for wealth and success. Power, in the sense of control over people and resources, is also reflected in the view of stakeholder value as subordinate to and instrumental for the enhancement of shareholder value. Crucially, both a stakeholderist and a shareholderist strategy could be in line with a director's self-interest, depending on the values that he or she holds dear and with which his or her firm's strategy is consistent. In sum, we hypothesize:

> *Hypothesis 1: Support for shareholder wealth maximization will correlate positively with power and achievement and negatively with universalism and benevolence value priorities.*

Entrepreneurial values

To better understand the motivations underlying shareholder- and stakeholder-oriented strategies, we advance a new, more general theory linking corporate strategy to the full set of universal values through the notion of entrepreneurship. After we identify the conceptual relationship between entrepreneurship and shareholders' interests, we briefly review the unique qualities that economic thought has identified in entrepreneurs, link these qualities to values, and hypothesize about decisions that involve shareholders and stakeholders.

Economic theory often considers firm owners as 'entrepreneurs' (e.g., Jensen and Meckling, 1976; Bitler, Moskowitz, and Vissing-Jorgensen, 2005) even though many shareholders are passive

[3] As the economic literature indicates, all of these motivations comprise one's self-interest; they do not represent deviations from rationality. See Sobel (2005) and DellaVigna (2009).

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portfolio investors and many entrepreneurs do not incorporate firms. Shareholders only have non-fixed claims on the corporation—only a hope to receive dividends or realize capital gains when they sell their shares. Coupled with limited liability, this leads shareholders as a constituency to have a particularly strong interest—relative to other stakeholders—that firms take up new projects with uncertain outcomes, as the net rewards accrue to them (Kraakman *et al*., 2004). As a broad generalization, between venturing and stability, shareholders would prefer the former and other stakeholders the latter. The key point is that entrepreneurial motivations are more closely aligned with the interests of shareholders.

Entrepreneurship is a rich concept, which encompasses entry, innovation, and so forth, by individuals and organizations alike. From among its numerous facets, we focus on entrepreneurship as a subjective quality that distinguishes entrepreneurial individuals from others. The contention that there are such distinctive qualities has a respected lineage, partly associated with the Austrian school of economics; it had been contested in the economic literature, but more recently is gaining broad acceptance (see Hébert and Link, 1982, 2009; Mahoney and Michael, 2005; see also Acs and Audretsch, 2003).

Schumpeter (1934: 93–94) put forward the iconic profile of the entrepreneurial spirit:

> First of all, there is the dream and the will to found a private kingdom, usually, though not necessarily, also a dynasty... The sensation of power and independence loses nothing by the fact that both are largely illusions... Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself... Finally, there is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity... Our type [the entrepreneur] seeks out difficulties, changes in order to change, delights in ventures. This group of motives is the most distinctly anti-hedonist of the three.

The Schumpeterian profile, romantic as it may sound, nonetheless captures central aspects of entrepreneurship as a subjective individual quality. Schumpeter (1934) underscored the motivations to gain control over resources, get recognition for success, and seek the new. Contributions by other prominent economists extended this basic model. Knight (1921) distinguished the willingness to bear uncertainty (and gain rewards for it). Kirzner (1973) emphasized alertness to new opportunities as a special subjective quality. As Kirzner points out, the Schumpeterian and Kirznerian models may highlight different facets of entrepreneurship but are not inconsistent with one another: 'Entrepreneurial alertness, in this essentially uncertain, open-ended, multi-period world must unavoidably express itself in the qualities of boldness, self-confidence, creativity and innovative ability' (Kirzner, 1999: 12). Lazear (2005) similarly submits that entrepreneurs have a special preference for variety.

A considerable body of empirical work associates entrepreneurship with a range of personal attributes that are compatible with the type suggested by economic theory, including independence, self-efficacy (verging on overoptimism), achievement, conscientiousness (perseverance), openness to experience, and perception (for surveys see Licht, 2007; Santarelli and Vivarelli, 2007; see also Locke and Baum, 2006). Drawing on this literature, Licht (2007) recasts the entrepreneurial spirit in terms of motivational goals in the Schwartz model as one high on power and achievement values and on self-direction and stimulation values. Noseleit (2010), with the use of a large dataset from several countries, finds consistent evidence among European entrepreneurs and non-entrepreneurs (see also Fagenson, 1993).

The conceptual compatibility between entrepreneurial motivations and shareholders' economic interests thus suggests that corporate elite members who hold more entrepreneurial motivations are more likely to adopt shareholder wealth maximization strategies. Shareholder-oriented strategies, thus, will be associated with openness-to-change values, that is, self-direction and stimulation.

While the entrepreneurship literature tended to emphasize change, uncertainty, and novelty in entrepreneurial subjective motivations, Schumpeter (1934) also pointed to the importance of power and achievement motivations, and argued at length that the entrepreneurial type does not aspire to accumulate wealth for hedonistic consumption, but rather as a symbolic demonstration of power and success. In this context, too, one can see the conceptual link to shareholder-oriented strategy. Maximizing profits and share price, as well as maximizing firm size, are all consistent with the entrepreneurial impulses to 'found a kingdom,' to 'succeed for the sake of success,' and so on. By construction, sharing the fruits of success among shareholders, employees, consumers, and other stakeholders may promote equality and social justice—thus expressing universalism—but will hamper the firm's ability to 'prove oneself superior to others' through higher profits and share price (and it does not matter that these 'are largely illusions,' as Schumpeter (1934: 93) dryly noted).

Our entrepreneurial values theory implies that when board members come to make strategic decisions, they will assess possible lines of actions for the firm in light of conceptually relevant values. This includes the full set of values on the self-enhancement/self-transcendence and the openness-to-change/conservation dimensions. Directors whose values are more entrepreneurial in the sense just described will more likely emphasize the entrepreneurial aspect of the firm and endorse strategies that benefit shareholders. The present theory thus subsumes Hypothesis 1 as set forth above.[4] The theory also implies that an emphasis on self-direction and stimulation on the openness-to-change pole will be associated with shareholders' interest. Hence we also hypothesize:

Hypothesis 2: Support for shareholder wealth maximization will correlate positively with self-direction and stimulation value priorities.

Social roles and the institutional setting

Hypotheses 1 and 2 assert that personal values will predict directors' decisions when faced with shareholders/stakeholders dilemmas. One may wonder whether the very nature of the directors' role—in particular, their legal duties—will not dominate, or trump, any effect their personal values may exert on strategic decisions. This question has theoretical and empirical aspects. Under corporate law in the United States (specifically, in Delaware), fiduciary duties are owed to the company as a whole and to shareholders. In conjunction with the business judgment rule, this seemingly clear prescription nonetheless provides ample room for managerial discretion as to how to promote the long-term interests of the firm, including through strategic stakeholder management. Lorsch and MacIver's (1989: 50) study of U.S. directors indeed finds that 'their legal mandate often means little in the complex reality of governance.' Similarly, in the seminal cases that we draw on, boards have decided in different ways, their decisions have been disputed, and the final dispositions have not been uniform—which all indicate that the legal duties have been anything but deterministic.

Swedish corporate law is similar to the law in the United States and in the United Kingdom in that it prescribes that the purpose of business corporations is to generate profits for shareholders. This widely accepted doctrine is deduced from a provision in the Swedish Companies Act, 2005 that requires companies with a different objective to state this clearly in the articles of association (Ch.3, Sec.3). The board of directors has the authority to propose an allocation of profits to the general meeting and, thus, effectively controls distributions, which include dividends. Under the listing rules of the Stockholm Stock Exchange, firms with a market value higher than SK three billion must adopt the Swedish Code of Corporate Governance (Swedish Corporate Governance Board, 2008). This Code focuses on meeting the owners' required return on capital; it does not deal with relations with customers, employees, or the general public. These matters have not been considered part of corporate governance.

Similar to their U.S./U.K. counterparts, we expect Swedish directors to vary in their interpretations of their roles and legal duties. Because corporate law applies similarly to all firms and board members, one can only look for variance in the way board members deal with case-based vignettes. Finding such variance will indicate that they understand their role as allowing for different interpretations of firms' best interests within the law. We expect such variance to correlate with values. It is important, however, to consider situations where conflict and harm to one constituency cannot be readily avoided.

The setting of this study enables us to examine likely effects of board members' roles (see Jensen and Zajac, 2004) by exploiting externally

[4] Note, however, that Hypothesis1 now derives from different theoretical accounts. The former impetus for Hypothesis 1 comes mostly from notions of fairness and equality—namely, universalism—whereas the entrepreneurship account emphasizes achievement and power.

induced variability in board composition. Swedish law prescribes board representation for employees. Employees, through their trade unions, have the right to appoint two directors in companies with more than 25 employees and three directors in companies with more than 1,000 employees. Employee representatives may not constitute a majority on the board. Trade union branches usually appoint representatives for regular workers and for white-collar workers. Employee representatives are not responsible for handling the affairs of the firm's employees; they owe the same legal duties, as do regular directors, to the company as a whole (Victorin, 2000; Levinson, 2001; Carlsson, 2007). Appointed by the board of directors, the CEO is the only senior executive who sits on the board in most listed companies in Sweden. Other board members are nonexecutive directors appointed by the general meeting.

How should the special status of employee representatives affect their decisions? To theorize on this subject, we draw on the literature of social identification (Tajfel and Turner, 1986; see Roccas *et al*., 2008 for an integrative analysis; and see Ashforth and Mael, 1989; and Fiol, Pratt, and O'Connor, 2009 for management applications). Social identification is the perception that one belongs to one or more social categories based on indicators such as ethnic origin, occupation, or organizational membership. Among other things, social identification may manifest itself in a commitment to the interests of the group, especially in comparison to those of outgroups. Of particular interest are individuals who identify with groups with potential conflict (economic, ideological, or other). In the present context, employee representative directors belong to such groups—namely, labor and corporate elite. A natural question is whether employee representatives will systematically promote employees' interests when the interests of shareholders and employees conflict. Although they do not bear direct responsibility for employee affairs, identity theory suggests that because of their dual identity, employee representative directors are likely to perceive employees' interests as legitimate in potential dilemmas with shareholders. Thus, we hypothesize that:

Hypothesis 3a: Employee representative directors will more strongly support employee interests than regular directors.

How should their multiple identifications affect employee representatives when they consider the interests of nonemployee stakeholders, such as consumers or the community? Social identities and roles provide individuals with 'scripts' for the actions required in their particular positions (Thoits, 1986). Those who belong to multiple groups are exposed to multiple scripts of desirable actions. They are, hence, likely to view multiple sets of perceptions and actions as possible and legitimate. Consistent with this idea are findings that individuals who identify with multiple groups that overlap only partly are more tolerant toward others, including outgroup members (Brewer and Pierce, 2005; see also Roccas and Brewer, 2002). Moreover, the process of taking other people's perspective leads to the endorsement of egalitarian principles and the acknowledgement of the interests of other people and groups (Galinsky and Moskowitz, 2000). Simultaneous consideration of the perspectives of corporate elite and of employees might thus lead employee representative directors to appreciate the interests of multiple stakeholders in general and develop a more stakeholderist orientation. We therefore hypothesize that:

Hypothesis 3b: Employee representative directors will, in general, side more than regular directors with nonshareholder constituencies.

Finally, does the professional role exhaust the effect of individual qualities or is there room left for values to influence the decisions of employee representatives? We expect the latter to be the case. Consistent with our prediction that the role of regular director will not preclude variability in shareholder/stakeholder dilemmas due to values, we expect that values will predict decisions of *all* board members above and beyond their role. Thus, directors will consider the best interests of the firm as they perceive them and will endorse strategies that are consistent with their personal values. In other words, directors' roles will not dominate their values in considering shareholder/stakeholder dilemmas. We therefore hypothesize that:

Hypothesis 3c: Values will predict decisions of all board members above and beyond their roles.

METHODS

Sample and data collection

We identified the entire population of directors, CEOs, and vice CEOs (the equivalent of presidents in U.S. firms) of all publicly traded firms in Sweden in 2005 using MM Partner, a database containing data on all public and private firms in Sweden and their board members. There were 288 publicly traded firms listed on the OMX Nordic Exchange and the Nordic Growth Market (NGM) in 2005. These firms had 424 CEOs (including vice CEOs) and 1,372 resident board members.

We sent the survey questionnaire together with a cover letter from the authors that described the study. In total, we received 502 responses (36.6%) from board members—an unusually high response rate for this type of participant. Of those, 127 were employee representatives (71% male, mean age = 53) and 375 were regular board members (83% male, mean age = 57). We received 126 responses (29.7%) from CEOs and vice CEOs (96% male, mean age = 51). We received at least one response for 252 of 288 firms (88%). The number of responses per firm varies from one to eight.

From MM Partner, we obtained information on firm size, as measured by the natural logarithm of the book value of assets, and on profitability, as measured by return on assets, total wage bill, and board size. For directors, we obtained information on their position on the board (regular director, employee representative, or CEO), total number of board seats, age, and tenure. From Osiris we obtained standard industrial classification codes, which we used to determine industry, data on directors' shareholding in the firms on whose boards they sit, data on institutional shareholders, and the Independence Indicator by Bureau van Dijk—an ownership dispersion indicator. From Thomson SDC we obtained data on firms' cross-listing transactions.

Measures

Shareholder and stakeholder orientations

Empirical investigation of managers' support for shareholder versus stakeholder interests ideally would examine managers' actual behavior in real shareholder-stakeholder conflicts. Conducting such an inquiry is virtually infeasible, however. Board minutes rarely record individual votes. Moreover, each organization faces the shareholder/stakeholder dilemmas in different circumstances, which makes it difficult to compare across organizations should we look at actual behavior. Likewise, lab experiments are unsuitable in this context.

To measure board members' decisions, we therefore employ a quasi-experimental approach using vignettes on shareholder-stakeholder conflicts. Vignettes are widely used in social science research (McFadden *et al.*, 2005), and have also been used to gauge managers' ethical values (Barnett and Karson, 1987, 1989). Vignettes provide the researcher 'a degree of uniformity and control over the stimulus situation approximating that achieved by researchers using experimental designs' (Alexander and Becker, 1978: 93). When properly used, vignettes can be useful for investigating participants' judgment-making processes and the factors that influence their decision making (Barter and Renold, 1999; Finch, 1987). Vignettes should appear plausible and real; they should strike a balance between providing sufficient context while leaving enough room for several reasonable solutions (Wason, Polonsky, and Hyman, 2002).

We take a novel approach by deriving our vignettes from seminal cases from the United States and the United Kingdom. Consultations with several Scandinavian corporate law professors indicated that these cases would likely be decided similarly in Sweden. Specifically, the first four vignettes are based on the following cases. The fifth one is borrowed from Tetlock (2000). The Appendix presents the vignettes.

1. *Consumers*—Dodge v. Ford (1919). Thanks to its dominant position in the automobile industry, the Ford Motor Company had a very large surplus fund. Henry Ford wanted the firm to use these funds in a way that would benefit consumers (and also employees). In court, he testified: 'I only want to make a small profit from my corporation.' The court had 'no doubt that certain sentiments, philanthropic and altruistic, creditable to Mr. Ford, had large influence in determining the policy to be pursued.' The court nonetheless held that '[a] business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end.'
2. *Employees*—Parke v. Daily News (1962). A U.K. newspaper publishing company suffered

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substantial trading losses. To avoid further losses, the board decided to liquidate the company's assets and pay its employees and pensioners beyond their legal entitlements in order 'to alleviate the suffering and hardship which may occur.' The court held that the proceeds should be distributed only to shareholders.

3. *Creditors*—Credit Lyonnais v. Pathé (1991). MGM was in financial distress following a leveraged buyout. In a famous footnote, the court averred that 'at least where a corporation is operating in the vicinity of insolvency, a board of directors is not merely the agent of the residue risk bearers, but owes its duty to the corporate enterprise.' Thus, the board may decline to accept a 'fire sale' price for a corporate asset to finance dividends for shareholders, and, by avoiding greater leverage, help creditors.
4. *Community*—Shlensky v. Wrigley (1968). The company that owned the Chicago Cubs baseball club and operated its Wrigley Field stadium refused to approve installation of lights and night baseball because Phillip Wrigley believed that baseball was a daytime sport and that night baseball might have a negative impact on the surrounding neighborhood. The court held for Wrigley notwithstanding lower attendance and financial losses.
5. *Corporate philosophy*—This vignette asks respondents to indicate which of two corporate philosophies they would support for posting on the firm's Web site: a monist shareholder-oriented corporate philosophy or a pluralist stakeholder-oriented philosophy.

These vignettes neither refer to their origin nor provide information such as names or industries of the real companies. Consistent with the original cases, each vignette specifies two propositions, one favoring shareholders and one favoring nonshareholders. It deserves to be emphasized that, like the original cases, the vignettes represent true dilemmas in that there was no 'third way' that would benefit all the parties involved, at least in the long run, or could avoid harm to one of the parties. Such cases might not come up on a daily basis; but it is precisely this quality that makes the original legal cases seminal—because board members, and the courts, were truly between a rock and a hard place. They had to endorse a strategic move that would benefit one party at the expense of the other, which, at the same time exposed them to potential liability or scrutiny.

For each vignette, participants reported their agreement with each proposition on a six-point scale that ranged from 'strongly agree' to 'strongly disagree.'[5] The corporate governance questionnaire was translated from English to Swedish and then back-translated using native speakers. Discrepancies were clarified through consultation with the authors.

Personal values

We measured the full set of 10 personal values (e.g., power, achievement, see Table 1) using a Swedish version of the standard 40-item Portrait Values Questionnaire (PVQ) instrument developed by Schwartz (Schwartz *et al.*, 2001; available from the authors). We followed standard procedure to control for differences in scale use. When we correlate values with external variables we center each individual's scores around their means (Schwartz, 1992; 2007). Internal reliabilities (alphas) of nine value indexes ranged from 0.59 to 0.83. Bearing in mind that values are particularly broad constructs, these reliabilities are well within the range of variation commonly observed for values (Schmitt *et al.*, 1993). The index for tradition exhibited an unacceptable $\alpha = 0.34$. Tradition, nonetheless, correlated systematically well in further analyses (see below).

Personal values are best measured by self-reports (Schwartz, 1992). Similarly, behavioral intentions in the face of organizational strategic dilemmas can only be measured by self-reports. This inevitably may raise concerns about common method bias. We therefore followed Podsakoff *et al.*'s (2003) recommendations for minimizing this bias. First, we used temporal and methodological separation of measurement. Participants reported their personal values; they then completed another instrument, which differed from the first in both content and format. Only then, participants were presented with the vignettes, which again differed in both content and format. Second, because all values are inherently desirable and because the 40 portraits in the PVQ scale are well balanced with respect to content so as to reflect

[5] In analyzing the data, we reversed the scale so it is more intuitive to the reader.

all values, participants were not likely to identify a 'consistent' choice in each vignette. Finally, we partialed out respondents' tendency for scale-use—a procedure that further minimizes common method response bias. Taken together, even though values and shareholders-stakeholders choices were self-reported, a common method bias is not likely.

Control variables

In addition to the variables mentioned in our hypotheses, we use several others to control for potentially confounding effects in the regressions. For example, we enter a variable for holding a CEO position. We also control for several individual-level variables: age and gender, which may be related to values (Schwartz, 2007; Schwartz and Rubel, 2005; see also Glen, 1974), length of tenure on the board, and the number of other directorships in public firms held by the respondent. Corporate elites' governance positions may imply different agency contexts and, together with demographic characteristics, may affect corporate strategy (Jensen and Zajac, 2004).

Although participants do not hold shares in the hypothetical companies they consider in the vignettes, directors nonetheless may be influenced by their professional experience, including equity holdings, which may lead them to develop a more pro-shareholder stance. Moreover, it is plausible that employee representatives hold less equity in the firms on whose boards they sit, such that an employee representative dummy variable may pick up the effect of lower equity positions rather than a separate effect of role. Detailed data on shareholdings is available for only a very small number of directors. In most cases, we only know whether they are shareholders or not. Thus, to control for equity incentives, we created a dummy variable that equals 1 if a director is listed as a shareholder in any of the firms on whose board he or she sits.

We also control for several firm-specific variables: log of firm size, log of total firm-level wages, profitability, and board size. Firm size could relate to managers' shareholderism stances indirectly, for example, more consideration of other stakeholders may be required in smaller firms. We use the book value of assets to proxy for firm size. After controlling for firm size, firms' higher expenses on wages may reflect greater importance for labor in the firm. More remotely, it might reflect greater pressure—through informal norms or selection processes—on directors to consider nonshareholder stakeholders. Firm operating performance could affect shareholderism stances since more profitable firms may have more 'slack resources' at their disposal for catering to stakeholders (e.g., Waddock and Graves, 1997). We use return on assets to proxy for firm performance. Board size, a much-studied factor in corporate governance research (see Adams, Hermalin, and Weisbach, 2010 for a survey), has been associated positively with the number of social objectives that a firm pursues (Aggarwal and Nanda, 2005; see also Brown, Helland, and Smith, 2006). We use data on cross-listing and on institutional shareholdings to capture a special emphasis on enhancing shareholder value that is often attributed to Anglo-American corporate governance, either when the firm enters those markets or when institutional investors from those markets enter the firm. We use the Independence Indicator to capture the independence of a company, and its board, with regard to its shareholders. Table 2 provides summary statistics and correlations for the 10 values, control variables, and for our shareholderism index, whose construction we describe below.

ANALYSIS AND RESULTS

We begin our analysis by constructing our index of shareholderism and investigating whether it contrasts with stakeholderism. Then we test our hypotheses. After examining the correlations between shareholderism and values (Hypotheses 1 and 2), we present findings for vignettes on different stakeholders and test Hypotheses 3a and 3b. We then test all hypotheses in a multivariate setting in which we add control variables to the regressions.

Shareholderism and different stakeholders

A well-known theme in debates over stakeholder theory is whether corporate governance should be monist or pluralist. Invariably, the single maximand strategy in this discourse focuses on shareholders; but upon reflection, one may wonder whether a single maximand strategy could focus on another constituency—say, employees—or whether various stakeholders could be lumped

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Table 2. Summary statistics and correlation matrix

A. Board member variables

	Variable	Obs	Mean	Std. dev.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1)	Shareholderism	626	4.19	0.95	1.00	6.00																	
(2)	Conformity	628	−0.28	0.73	−2.35	1.83	−0.11**																
(3)	Tradition	628	−1.25	0.60	−3.1	0.48	−0.11**	0.35**															
(4)	Benevolence	628	0.56	0.59	−1.55	2.25	−0.18**	−0.11**	−0.06														
(5)	Universalism	628	0.38	0.63	−1.5	2.55	−0.34**	−0.16**	−0.46	0.34**													
(6)	Self-direction	628	0.91	0.64	−1.25	2.85	0.20**	−0.53**	−0.37**	−0.04	−0.04												
(7)	Stimulation	628	−0.13	0.86	−2.65	2.55	0.13**	−0.44**	−0.33**	−0.08	−0.10**	0.37**											
(8)	Hedonism	628	−0.03	0.88	−2.65	2.38	−0.00	−0.17**	−0.21**	−0.15**	−0.23**	−0.05	0.21**										
(9)	Achievement	628	0.02	0.76	−2.4	2.35	0.34**	−0.21**	−0.31**	−0.33**	−0.47**	0.11**	0.04	−0.06									
(10)	Power	628	−0.44	0.74	−3.18	1.94	0.35**	−0.16**	−0.15**	−0.43**	−0.49**	0.09	0.02	0.03	0.48**								
(11)	Security	628	−0.06	0.63	−2.03	1.43	−0.10*	0.33**	0.18**	−0.17**	−0.16**	−0.40**	−0.51**	−0.23**	−0.13**	−0.10**							
(12)	Employee rep.	628	0.20	0.40	0.00	1.00	−0.54**	0.24**	0.05	0.11**	0.23**	−0.22**	−0.21**	0.04	−0.28**	−0.26**	0.16**						
(13)	Gender	628	0.83	0.38	0.00	1.00	0.28**	0.10*	0.10*	−0.21**	−0.22**	−0.01	−0.05	−0.02	0.10*	0.18**	0.09*	−0.16**					
(14)	Age	628	54.28	9.15	25.00	74.00	0.06	0.04	0.12**	−0.03	−0.00	0.02	−0.02	−0.18**	−0.04	0.05	0.06	−0.16**	0.16**				
(15)	CEO	628	0.20	0.40	0.00	1.00	0.16**	−0.10*	−0.00	−0.11**	−0.09*	0.03	0.01	−0.02	0.15**	0.16**	0.01	−0.25**	0.17**	−0.02**			
(16)	Tenure	627	2.62	2.21	0.00	9.00	0.10*	0.03	0.01	−0.01	0.02	−0.00	−0.06	−0.09*	0.02	0.06	0.02	−0.03	0.16**	0.31**	−0.06		
(17)	# Directorships	628	1.35	0.85	1.00	7.00	0.22**	−0.05	−0.03	−0.05	−0.12**	0.07	0.05	−0.01	0.07	0.10*	0.01	−0.20**	0.05	0.14**	−0.02	0.09*	
(18)	Equity holding	566	0.16	0.36	0.00	1.00	0.12**	0.03	0.06	−0.06	−0.11**	−0.01	−0.02	−0.04	0.03	0.08	0.06	−0.19**	0.08	0.12**	0.08	0.08	0.29**

** , * significant at 0.01, 0.05, respectively. Value scores are centered around their mean rating across values.

B. Firm variables

	Variable	Obs	Mean	Std. dev.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)
(1)	Return on assets	595	−0.01	0.15	−0.12	0.36						
(2)	Total wage bill (ln)	565	16.76	1.88	9.21	22.31	0.27**					
(3)	Firm assets (ln)	595	20.46	2.03	14.62	26.09	0.35**	0.57**				
(4)	Board size	628	8.69	2.49	3.00	15.00	0.13**	0.51**	0.65**			
(5)	U.S./U.K. institutional	507	0.12	0.33	0.00	1.00	0.09*	0.13**	0.11*	0.02		
(6)	U.S./U.K. cross-listing	628	0.03	0.16	0.00	1.00	0.08	0.16**	0.14**	0.17**	−0.04	
(7)	Independence indicator	518	2.98	2.93	1.00	11.00	0.04	0.21**	0.09	0.09*	−0.18**	0.04

** , * significant at 0.01, 0.05, respectively.

together as such.[6] We therefore first examine whether the common broad distinction of 'shareholders versus stakeholders' is borne out in our data—whether there is such a thing as shareholderism. Specifically, we examine whether our vignettes represent the same content world, and whether a single dimension can represent a concept of shareholderism (versus stakeholderism). An exploratory factor analysis with oblique rotation (promax) yielded three factors. All but the two creditor items loaded on the first factor, accounting for 32.7 percent of the variance. These two items loaded on a second factor and were dropped. The two community items loaded on both the first and third factor. Pairs of items measuring the pro-shareholder and pro-stakeholder propositions in each vignette always loaded on the same factor in opposing directions. The results indicate that board members indeed consider different constituencies as comprising a general category of stakeholders whose interest may be opposed to shareholders' interest. After reversing the pro-stakeholder items so that higher values are more pro-shareholder, we averaged these eight items to construct a shareholderism index. This eight-item index showed satisfactory reliability ($\alpha = 0.77$). This index captures an ideological continuum about corporate strategy and corporate governance that scholars have assumed for decades and that now receives empirical validation for the first time.

Shareholderism and values

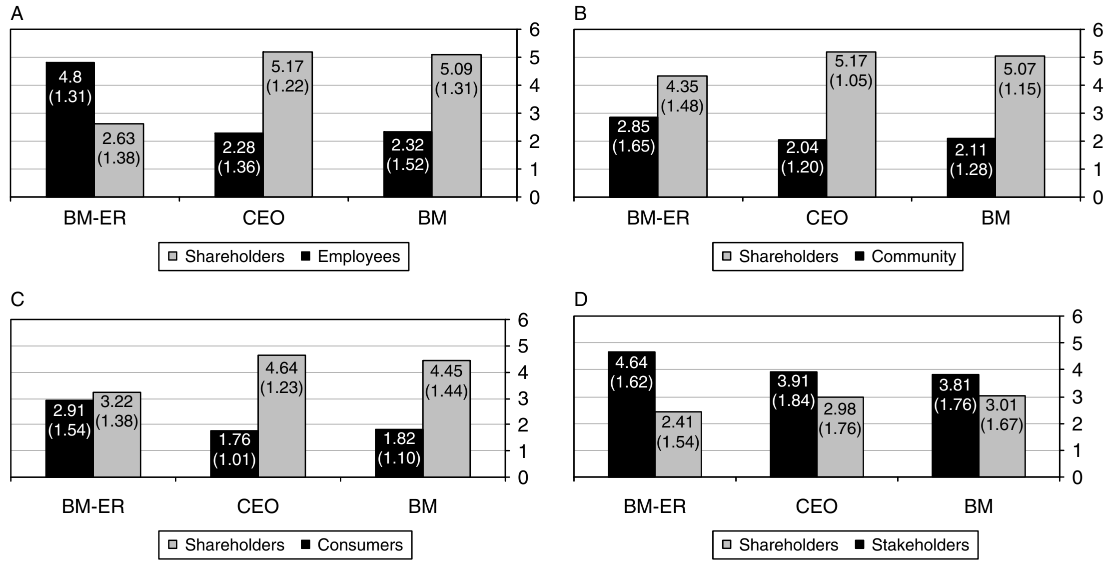
We now turn to testing our hypotheses linking shareholderism to personal values. As a first approximation, Table 2 presents correlations between shareholderism stances and value priorities in our sample. A clear pattern emerges. Board members are more likely to exhibit a shareholderist stance the more they emphasize power and achievement and the less they emphasize universalism and benevolence, in line with Hypothesis 1. With somewhat lower yet significant correlations, shareholderism correlates positively with self-direction and stimulation and negatively with conformity and tradition, in line with Hypothesis 2. When we look at the three subsamples separately, Hypothesis 1 receives support in all of them but Hypothesis 2 receives support only among employee representative directors. At the same time, regular board members and CEOs score significantly higher on self-direction and stimulation than employee representatives do. We return to this point in the regression analysis.

These findings are generally consistent with the notion that shareholderism goes hand in hand with endorsing more entrepreneurial values. Interestingly, shareholderism exhibits no correlation with hedonism. Pleasure motivations appear to play virtually no role in shaping corporate fiduciaries' stances in shareholder-stakeholder dilemmas. This empirical finding is particularly noteworthy in light of Schumpeter's (1934) assertion that the entrepreneurial self-interest is based on seeking success, and so forth, and has little to do with hedonistic incentives.

Shareholders, particular stakeholders, and roles

We now turn to a detailed investigation of responses to the vignettes among three groups: regular board members, board members who are employee representatives, and CEOs. Figure 1 presents means and standard deviations of participants' responses to the vignettes. When shareholders' interests were contrasted with the interests of employees (Panel A of Figure 1), regular board members and CEOs sided with shareholders, whereas employee-representatives sided with the employees, in line with Hypothesis 3a. When shareholders' interests were contrasted with the interests of the community (Panel B) and of consumers (Panel C), all three groups favored shareholders' interests, albeit by a significantly narrower margin for the employee representatives. Thus, Swedish directors would side with shareholders even in cases where the U.S. court in *Shlensky* allowed them to side with stakeholders (the community). Swedish directors also share the shareholderist stance exhibited by the U.K. court in *Parke* with regard to employees, unlike their counterparts on the board of the *Daily News*. These findings indicate that decisions in shareholders-stakeholders dilemmas are associated with contextual role factors: board members who are employee representatives may favor all stakeholders more strongly than regular board members and CEOs, in line with Hypothesis 3b. When the special

[6] We are grateful to an anonymous referee for raising these points.



BM – regular board members; BM-ER – employee representative board members.

Figure 1. Responses to the vignettes

allegiance to employees is not triggered, *all* board members on average would side with shareholders.

An interesting consensus emerged with regard to the item on corporate philosophy (Panel D). Members of all three groups *rejected* the shareholder wealth maximization philosophy in favor of posting a multiple-stakeholder philosophy. Employee representatives again sided with the stakeholder view more than the other two groups. Thus, in the mock 'actual' decisions, board members largely side with shareholders, but for declaratory purposes they prefer their firm to boast a pro-stakeholder approach.

This finding is consistent with a firm-level study on the objectives stated in the Web sites of Fortune 500 companies, reported in Agle *et al.* (2008). In a sample of 100 Web sites (looking at statements about mission, vision, philosophy, values, etc.), 64 endorsed approaches to 'maximize the well-being of all stakeholders'; only 10 companies espoused a 'pure stockholder' focus and 22 espoused a 'legally and ethically bounded' shareholder focus. The apparent dissonance between directors' preferred public philosophy and their positions in concrete dilemmas also extends Fiss and Zajac's (2004) argument that firms may engage in decoupling by espousing but not implementing a shareholder value orientation. Here, individual directors would have their firm espouse but not implement the opposite stakeholder orientation.

When we take a broader perspective on the vignettes, the findings reveal that participants form two camps: regular directors' and CEOs' average scores do not differ in order on any item, whereas employee representatives differ from the former two groups on all items. In all four vignettes, employee representative directors favored stakeholders' interests more and shareholders' interests less than did board members of the other two groups, in line with Hypothesis 3b. To confirm this, we conducted a multivariate analysis of variance (MANOVA) with the type of group as the independent variable and the shareholder/stakeholder preferences as the dependent variables. The three groups differed on all but the creditors items (F ranges from 5.74 to 155.48, all $p < 0.001$). A series of planned contrasts revealed significant differences between the employee representative directors and each of the two other groups for all but the creditors items (t ranges from 2.69 to 18.15, all $p < 0.01$).

Testing the full model

Values and roles obviously are not the sole determinants of directors' behavior. We therefore use a regression setting to disentangle their effects and

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control for other likely influences on shareholder-stakeholder strategy.

Schwartz's model predicts that value priorities are linked conceptually and empirically. This feature could cause problems in a regression analysis due to multicolinearity. We therefore first employed the stepwise procedure to identify those values that contribute significantly to the regression model. When all values were considered in the stepwise analysis, only power, achievement, self-direction, and universalism contributed significantly and are thus included in the regressions below as a baseline. Because many firms have more than one respondent, we adjust standard errors for within-firm correlation across directors by clustering them at the firm level. We also use robust standard errors to adjust for heteroskedasticity.

Table 3 presents the regressions in two parts. Table 3A focuses on personal factors. Column 1 shows regression results of shareholderism on the four baseline values. All values exhibit (standardized) coefficients largely equal in size, with the signs predicted by Hypotheses 1 and 2, in line with the entrepreneurial values theory. This specification alone explains 21 percent of the variance.

In the next step, we examine whether shareholderism is particularly pronounced among board members who are simultaneously high on all the motivations that constitute the Schumpeterian entrepreneurial spirit—namely, high power, achievement, and self-direction. To examine this,

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

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

Table 3b. Shareholderism regressions: values and roles, with industry and firm factors

	(1)	(2)		(3)	(4)	(5)	(6)	(7)
Power (PO)	0.16**	0.12*		0.12*	0.13*	0.12*	0.12*	0.13*
	[0.07]	[0.06]		[0.07]	[0.07]	[0.07]	[0.07]	[0.08]
Self-direction (SD)	0.09*	0.07*		0.08*	0.12**	0.08*	0.08*	0.07^{+}
	[0.05]	[0.05]		[0.05]	[0.06]	[0.05]	[0.06]	[0.06]
Achievement (AC)	0.09^{+}	0.10*		0.10*	0.08	0.11*	0.09	0.11*
	[0.06]	[0.06]		[0.06]	[0.07]	[0.06]	[0.07]	[0.07]
Universalism (UN)	−0.12*	−0.12**		−0.11*	−0.11*	−0.11*	−0.12*	−0.13*
	[0.07]	[0.07]		[0.07]	[0.08]	[0.07]	[0.09]	[0.08]
Entrepreneurship	−0.06	−0.04		−0.04	−0.05	−0.04	−0.02	−0.06
	[0.08]	[0.08]		[0.08]	[0.09]	[0.08]	[0.09]	[0.09]
Employee rep. (ER)	−0.42**	−0.42**		−0.41**	−0.41**	−0.41**	−0.41**	−0.38**
	[0.09]	[0.08]		[0.10]	[0.11]	[0.10]	[0.10]	[0.11]
Gender (male)	0.17**	0.17**		0.18**	0.16**	0.18**	0.16**	0.17**
	[0.08]	[0.08]		[0.09]	[0.09]	[0.09]	[0.09]	[0.10]
Age	−0.07*	−0.08*		−0.07*	−0.07^{+}	−0.07*	−0.05	−0.07^{+}
	[0.00]	[0.00]		[0.00]	[0.00]	[0.00]	[0.00]	[0.00]
CEO	−0.03	−0.03		−0.05	−0.04	−0.05	−0.02	−0.02
	[0.08]	[0.07]		[0.08]	[0.08]	[0.08]	[0.08]	[0.08]
Tenure	0.06^{+}	0.07*		0.02	0.03	0.02	0.00	0.03
	[0.02]	[0.01]		[0.01]	[0.02]	[0.01]	[0.02]	[0.02]
# Directorships	0.06^{+}	0.10**		0.08*	0.06^{+}	0.08*	0.05	0.07^{+}
	[0.04]	[0.03]		[0.03]	[0.03]	[0.03]	[0.04]	[0.04]
PO industry avg.	0.03		Return on assets	0.06*	0.03	0.06*	0.06*	0.07*
	[0.11]			[0.16]	[0.19]	[0.16]	[0.17]	[0.17]
SD industry avg.	−0.03		Firm wage bill (ln)	−0.01	−0.01	−0.01	0.00	0.01
	[0.09]			[0.02]	[0.02]	[0.02]	[0.02]	[0.02]
AC industry avg.	0.02		Firm assets (ln)	0.09*	0.08	0.09*	0.10*	0.09^{+}
	[0.12]			[0.02]	[0.03]	[0.02]	[0.02]	[0.02]
UN industry avg.	0.02		Board size	−0.10*	−0.08	−0.10*	−0.13**	−0.13**
	[0.15]			[0.02]	[0.02]	[0.02]	[0.02]	[0.02]
# Reps. in industry		−0.02	Industry fixed effects		yes			
		[0.00]						
			U.S./U.K. cross-listing			−0.01		
						[0.15]		
			U.S./U.K. institutional				0.01	
							[0.10]	
			Independence indicator					−0.03
								[0.01]
Observations	544	626		564	552	564	457	465
R-squared	0.42	0.42		0.43	0.48	0.43	0.44	0.44

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.

we constructed an interaction term, which is the product of the average of power and achievement scores times the self-direction score.[7] This entrepreneurship interaction term indeed associates positively with shareholderism (Column 2). This term becomes statistically insignificant in the more elaborate specifications, however.

We focus specifically on the role of an employee representative and its contribution to explaining shareholderism in Column 3. Entering a dummy variable for the employee representative position (1 = employee representative) yields a negative coefficient indicating that these board members are *in general* less shareholderist than regular

[7] We use these three values in light of the stepwise regression results mentioned above. Power and achievement represent the self-enhancement/self-transcendence dimension and self-direction represents the openness-to-change/conservation dimension in the Schwartz model. Subtracting universalism from power and achievement in the interaction term yielded similar results.

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board members, in line with Hypothesis 3b. In tandem, power, universalism, achievement and self-direction continue to predict shareholderism significantly, though less strongly for the latter two values, in line with Hypothesis 3c. We separately confirm that the F-statistic and R-squared rise significantly with the inclusion of the employee representative position. This position explained an additional 16 percent of the variance beyond values.

Next, we control for several other attributes: CEO position (1 = CEO), gender (1 = male), age, tenure, and the number of directorships (Column 4). Values and holding an employee representative position remain significant predictors for shareholderism. Holding a CEO position does not have a significant role in predicting shareholderism relative to regular directors. Male board members are significantly more shareholderist even while accounting for values, board position, and so forth. Older directors are less shareholderist than younger ones. Both tenure and the number of directorships associate positively with shareholderism. This is consistent with the idea that shareholders may prefer to nominate shareholderists to more boards and to keep them longer on the board. These personal attributes together explain an additional four percent of the variance beyond values and the employee representative position. The qualitative dummy variable for equity holdings indicates that the director is exposed to equity incentives. Consistent with intuition, this construct correlates negatively with holding an employee representative role ($r = -0.19$; $p < 0.01$). However, it is not significant in the regression, and values and role remain significant when controlling for this factor (Column 5).

Next, we control for the possibility that roles constrain the boundaries of directors' values by examining whether holding an employee representative role moderates the effect of values on shareholderism for these directors. Columns 6 to 9 display results for interaction terms of the four baseline values and the employee representative variable. We enter them in sequence to minimize colinearity problems. All four terms are nonsignificant. We repeat the exercise with four interaction terms for values and CEO position but obtain nonsignificant coefficients (not shown). The results indicate that while there may be differences in values between role incumbents on the board, values appear to exert a similar influence on the way all board members approach shareholder-stakeholder issues, which is separate from any effect due to role, in line with Hypothesis 3c.

In Table 3B, we test the robustness of the findings when various industry- and firm-level factors are included. Columns 1 and 2 extend the investigation of the relations between values and role to the industry level. We first examine whether the employee representative effect simply reflects the position of the union or some average effect of values that could prevail in the industry. For all employee representatives in our sample, we computed the industry-average scores of the four baseline values and entered these industry averages in the regression. The results, reported in Column 1, are statistically insignificant. In Column 2 we try an alternative approach by controlling for the number of employee representatives per industry in the entire population of directors. The stronger a union is in terms of numerical representation, the more its views may dominate those of individual representatives. The coefficient on this variable is statistically insignificant. Therefore, the evidence shows that personal values of role incumbents matter and are not merely those of the union.

Next, in Column 3, we enter firm-level attributes—return on assets, firm size, total wage bill, and board size—to find that values and role are robust to the inclusion of these factors.[8] All but wage bill exhibit significant coefficients (firm size and board size, at $p < 0.06$). Directors in larger and more profitable companies tend to be more shareholderist in their attitudes. This finding is generally consistent with our theory and with the Schumpeterian account. Serving on the board of a larger and more profitable firm may exert pressure to increase shareholder value even further. In tandem, sitting on larger boards is associated with

[8] For directors who sit on the board of more than one firm in our sample we enter firm-level data of a random firm. As a robustness test we compute and enter the average firm-level characteristics for every director with multiple board seats in our sample. This specification is consistent with the notion that responses to vignettes may reflect the average experience from all the boards on which one sits. We also run a regression of all director-firm observations in our sample ($N = 775$). This specification might be interpreted as imputing the particular firm-level characteristics to the firms mentioned in the vignettes. The results in both tests are similar to those presented.

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Table 4. Summary of hypotheses and findings

Hypothesis	Confirmation
Hypothesis 1: Support for shareholder wealth maximization will correlate positively with power and achievement and negatively with universalism and benevolence value priorities.	Confirmed [see Table 2, Column 1]
Hypothesis 2: Support for shareholder wealth maximization will correlate positively with self-direction and stimulation value priorities.	Confirmed [see Table 2, Column 1]
Hypothesis 3a: Employee representative directors will support employee interests.	Confirmed [see Figure 1, Panel A]
Hypothesis 3b: Employee representative directors will side with nonshareholder constituents in general more than regular directors.	Confirmed [see Figure 1, Panels A-D]
Hypothesis 3c: Values will predict decisions of all board members above and beyond their role.	Confirmed [see Tables 3A and 3B]

a more stakeholderist approach, in line with the literature mentioned above.[9]

In the final set of regressions, we examine the robustness of our findings to effects from the business environment and capital markets. In a regression with industry fixed effects, all firm-level controls are nonsignificant (Column 4). Board position and three of the four baseline values retain their significance, with self-direction being even more pronounced. In Column 5, we add a dummy variable that equals 1 if the firm is cross-listed on a U.S. or U.K. stock exchange. In Column 6, we add a dummy variable that equals 1 if a U.S. or U.K. institutional investor is listed among the firm's three largest shareholders. Neither variable is significant. Finally, we enter the Independence Indicator. We converted this indicator from alphabetical to numeral scores such that lower values indicate greater independence of a company and its board with regard to its shareholders. This variable is statistically insignificant (Column 7), while values and role usually remain significant in this set of regressions.

DISCUSSION

Ever since the seminal exchange between Dodd (1932) and Berle (1932) over the question 'For whom are corporate managers trustees?' much of the debate has assumed that the law can be used to instruct managers whether they should maximize shareholder value or also promote other stakeholders' interests.[10] We maintain that in making such strategic decisions, managers resort to their values—their stable beliefs and goals—as guiding beacons to the right behavior. We show that personal values and roles contribute substantially to predicting shareholderism stances among corporate elite members. Table 4 summarizes our specific hypotheses and main findings. Although the legal duties managers are subject to are seemingly clear, it turns out that they leave ample room for discretion.

The evidence presented here throws new light on our understanding of stakeholder theory and corporate governance. Board members may make strategic decisions in light of internal subjective injunctions—because of who they are—and not only because of external injunctions or incentives. These findings lay an individual-level foundation—that heretofore has been largely missing—for discussions about firm-level strategy or firm-, or national-level corporate governance policy. Better understanding 'what makes a director tick' is essential for such discussions, be they descriptive, instrumental, or normative. Consequently, this study may call into question corporate governance reform proposals that rely solely on formal measures—legal rules, stock exchange rules, or codes of conduct. Such reforms should also consider the subjective factors pointed out here. These factors may serve to constrain or to buttress such reforms depending on their conceptual content meaning.

[9] Separately, we entered an interaction term of board size and employee representative to see if the latter may be more stakeholderist in larger boards, but obtained insignificant results (not shown).

[10] See Bradley *et al*. (1999) and Licht (2004) for surveys. For treatments by economists, see Adams and Ferreira (2007); Berglöf and von Thadden (2000); Faleye, Mehrotra, and Morck (2006); and Pagano and Volpin (2005).

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One might wonder whether values *cause* board members to adopt certain shareholderism stances. We believe that such a causal interpretation is plausible. Endogeneity typically arises because of reverse causality or omitted variables. In the present context, it is difficult to imagine that shareholderism stances would affect values by way of reverse causality. Extant evidence indicates that people's values develop at an early age (Goodnow, 1997; Knafo and Schwartz, 2004), which makes it unlikely for shareholderism to feed back to values.

This research contributes to the development of stakeholder theory in several ways. To operationalize personal stances on stakeholder issues, we construct a novel index of shareholderism (versus stakeholderism) and employ a quasi-experimental approach that relies on real court cases. Using this index, we validate that directors perceive a general tension between the interests of shareholders and stakeholders and provide a way to measure an ideological continuum about corporate strategy and corporate governance. This shareholderism construct may prove useful as research progresses.

We leverage a theory of values that has been validated to reflect a universal structure of individual values. Thanks to the universality of this analytical framework, the basic findings of this study are generalizable beyond Swedish directors and corporate governance. The current theoretical framework highlights the role of values such as self-direction on the openness-to-change/conservation dimension, which has been overlooked in the literature thus far. To the best of our knowledge, our study is the first to combine survey-based observations at the level of the corporate elite with individual data as well as firm and industry information. Moreover, this paper, to our knowledge, is the first to survey the entire population of subjects of interest in the strategic management literature, and thus avoids sample selection problems.

This study remains limited in ways that warrant further research to substantiate and expand it. First, notwithstanding the use of a universal model of values, our data still come from a single country with its own national culture, particular laws, and typical corporate governance system. There clearly is room for confirming the present findings in other countries that vary on these factors. Second, while a vignette-based survey may exhibit certain strengths, tackling the present topic with alternative methodologies—especially using field observations—will greatly enrich our understanding of it. Third, although we take steps to control for potential influence of corporate culture and industry norms, more could be done in the future—for example, to assess their role in the creation of value homogeneity in the board.

Among the possible avenues for future research suggested by the current study, we highlight a set of directions that involve integrating more than one level of analysis, which we consider most promising. In addition to individual values that operate at this level, theory development and empirical testing should explore board-level phenomena—for example, structural features of the board and board dynamics and firm-level ones (cf Brickson, 2005). At a different level, although the role of cultural orientations in international business is the subject of a large literature (see Leung *et al.*, 2005), more can be done to associate culture and shareholderism versus stakeholderism in corporate governance systems (see Licht, 2004; see also Bradley *et al.*, 1999; Roe, 2003). As cultural differences are reflected in differences in value priorities, one would expect to see systematic differences among countries also in directors' shareholderism stances. Such research is clearly warranted in light of the movement for corporate governance reform in many countries.

This study is relevant for the development of effective governance policy. In the absence of better remedies, independent directors are regularly touted as panacea to current ills of corporate governance—in particular, the need to monitor corporate insiders. Independence here means lack of material pecuniary or personal linkage to the company and its insiders. The current findings suggest that directors might formally satisfy regulatory criteria for independence but may nonetheless approach strategic issues differently depending on their personal attributes and background (Jensen and Zajac, 2004; Hiller and Hambrick, 2005). Relatedly, mandatory employee representation prevails in Europe in various forms. Recent corporate governance reforms in Norway and Spain mandate a substantial presence of women on the board. The current results may illuminate the effects of board composition for strategic management (cf Adams and Ferreira, 2009) and also inform the design of future reforms.

The support among board members for adopting a multiple-stakeholder corporate philosophy comports with findings from U.S. firms' Web sites

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(see Agle *et al*., 2008). Importantly, we find that the tendency to prefer either philosophy varies in conjunction with directors' general shareholderism stance. Fiss and Zajac (2004) found that many German firms during the 1990s espoused a shareholder value orientation in their annual reports notwithstanding corporate practice and a legal prescription that the firm be managed for the benefit of multiple stakeholders (cf Westphal and Zajac, 2001). Fiss and Zajac's (2004) and our results together may suggest a 'triple decoupling' of legal duty, corporate espousal, and implementation. The present evidence points to an individual-level mechanism that may be driving such decoupling—namely, the values and roles of corporate elite members and, to a lesser extent, also their demographics. What to make of companies' public statements in this regard remains to be studied.

Relatedly, Jensen (2001: 301) captures another central theme in the debate over monist versus pluralist corporate governance: '[t]elling a manager to maximize [several objectives]... leaves the manager with no objective. The result will be confusion and lack of purpose....' (for a rejoinder see Phillips, Freeman, and Wicks, 2003). This study may not resolve the debate over pluralist corporate governance as a 'confusing' paradigm because it presented participants with clear choices. It does, however, suggest why the monist strategy is always shareholder oriented. Entrepreneurial values engender shareholderism as a conceptually consistent strategy. In contrast, the results show that if one is for employees one is also likely to support other nonshareholder constituencies, consistent primarily with higher universalism.

CONCLUSION

Some 92 years have passed since the Michigan Supreme Court famously admonished Henry Ford and the entire business community for years to come:

> A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits or to the non-distribution of profits among stockholders in order to devote them to other purposes (Dodge v. Ford, 1919: 683).

Ford, a quintessential capitalist, thought otherwise:

> I don't believe we should make such an awful profit on our cars. A reasonable profit is right, but not too much. I hold that it is better to sell a large number of cars at a reasonable small profit... I hold this because it enables a larger number of people to buy and enjoy the use of a car and because it gives a larger number of men employment at good wages. Those are the aims I have in life (Nevins and Hill, 1957: 97).

Almost a century and reams of paper later, and the likelihood of reconciling these views seems as remote as ever. *Plus ça change, plus c'est la même chose*. The findings of this study suggest that these controversies may never be resolved, as they are rooted in the most basic beliefs that people hold about their goals in life.

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APPENDIX: CORPORATE GOVERNANCE SCENARIO SURVEY

Please consider the following stylized scenarios and respond to the questions.

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.	☐	☐	☐	☐	☐	☐
distribute virtually all of its undistributed profits to its shareholders.	☐	☐	☐	☐	☐	☐

Corporation D has a loss-making business in the mass media market. Although it has a well-known brand name, D's production technology is now obsolete and its workers are relatively old. The only way to avoid further losses is to cease operations and wind up the company, in which case a substantial amount of proceeds will remain after creditors are paid and workers receive their legal severance payments.

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

After ceasing operations and satisfying legal financial obligations, the company should…	Strongly agree	Moderately agree	Slightly agree	Slightly disagree	Moderately disagree	Strongly disagree
distribute all the remaining proceeds as dividend to its shareholders.	☐	☐	☐	☐	☐	☐
devote half of the balance to its workers, in proportion to their service in D, to alleviate their hardship.	☐	☐	☐	☐	☐	☐

Corporation M conducts business in the entertainment industry through several wholly owned profitable subsidiaries. The company manages to service its debt, but its financial situation is tight. Corporation M learns that the vast majority of its shareholders, holding over 98 percent of its shares, are in need of cash.

Suppose you are a director in M. 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
sell one of its subsidiaries for a 'firesale' (very low) price to finance a dividend distribution to its shareholders notwithstanding the risk of financial default.	☐	☐	☐	☐	☐	☐
avoid any kind of distribution to shareholders as long as the company is in the vicinity of insolvency.	☐	☐	☐	☐	☐	☐

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Corporation C operates a large recreation center in an urban area, which is open until 7 pm. Even though longer opening hours are now industry standard and would be profitable, the company has opted against it in order to preserve the character of surrounding neighborhoods. One of C's shareholders calls for changing this policy to increase profits.

Suppose you are a director in C. 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
open its center for as many days and hours as is financially profitable.	☐	☐	☐	☐	☐	☐
adhere to its current policy on hours of operation.	☐	☐	☐	☐	☐	☐

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.'	☐	☐	☐	☐	☐	☐
'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.'	☐	☐	☐	☐	☐	☐