

Shareholder Value: Principles, Declarations, and Actions

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This paper is about shareholder value. We examine whether welfare considerations justify that target and whether competitive markets force firms to pursue it. We also argue that shareholder value is strictly an ill-defined goal. We report evidence from a large sample of listed firms across the world that many managers do not even mention shareholders in their mission statements. However, firms that do disclose a commitment to shareholders seem to perform better in terms of stock price and operating performance.

Our shares lost 57% of their value during 2008, without any real justification, like many other shares of excellent companies quoted on the stock exchange. I continue to repeat the fact that the value of shares on the stock exchange in no way can be taken as a standard of measurement of the real value of the company.

Nicolas G. Hayek, Message from the chairman and major shareholder, 2008 Annual Report, Swatch Group, one of the largest firms listed on the SIX Swiss Exchange.

Much of the current discussion about corporate governance can be interpreted as a debate about the purpose of the corporation, or about whose interests the corporation should ultimately serve (Jensen, 2001). The most celebrated corporate target is shareholder value maximization. This paper examines whether economic principles justify that scorecard and if competitive markets compel managers to adopt it. Moreover, it inquires as to whether managers commit at least verbally to that target and asks whether those who do commit perform better.¹

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¹A vast literature in management and other fields looks at alternatives to shareholder value. Licht (2004) reviews the legal and management papers and offers a theory of the psychological factors that determine the choice of managers' maximand including cultural orientations of society and the need for cognitive closure. Other surveys are in Blair (1995) and Allen, Carletti, and Marquez (2007). Similarly, having noted that "to many people, the economists' and legal scholars' sole focus on shareholder value appears incongruous," Tirole (2001) examines the merits of the concept of the "stakeholder society."

Various academics, especially in law and finance, have contended that there is a pervasive consensus that managers should strive to maximize shareholder value and that doing so maximizes social welfare. Accordingly, we are witnessing widespread agreement that “corporate managers should act exclusively in the economic interests of shareholders” and that “the best means to this end, the pursuit of aggregate social welfare, is to make corporate managers strongly accountable to shareholder interests” (Hansmann and Kraakman, 2000). A normative consensus is also implicit in various corporate finance textbooks. According to Brealey, Myers, and Allen (2006), the fundamental objective of corporate finance is to maximize the current value of the firm’s shares. Brigham and Ehrhardt (2007) work with the same assumptions, adding that actions “that maximize stock prices also benefit society.” This normative consensus is complemented, some say, by economic forces that compel managers, regardless of how reluctant, to pursue the target of shareholder value maximization (e.g., according to Morck, Shleifer, and Vishny, 1988, in the capital markets).

No country, however, not even the apparently shareholder-friendly United States or United Kingdom, has a legal requirement that managers act solely in shareholders’ interests. In fact, many US state laws “specifically make it legal for directors to consider other interests in addition to shareholders when making business decisions” (Blair, 1995).

Our investigation examines the normative and factual arguments in favor of shareholder value. We start with a discussion of whether shareholder value maximization optimizes social welfare and whether competitive markets compel managers to seek that target. We argue that there is no compelling case one can make that shareholder value maximization is society’s most desirable corporate target or that competitive markets for goods, capital, and labor pressure managers to seek higher shareholder value. Moreover, due to insurmountable differences in investors’ investment horizons and financial interests, shareholder value maximization is an ill-defined target to begin with (Miller, 1987).

The second step in our investigation is to explore whether firms mention shareholders in their mission statements. These statements are, to many, the prime management tool (Bart, 2001). They communicate the values that companies stand for to rally employees behind a common cause. We inspect the formal and informal mission statements on the websites of some 1,800 listed firms in 23 different countries worldwide. Only 35% of the large corporations across the world address the importance of shareholders as compared to 43% that make reference to corporate social responsibility. Most firms are not even willing to mention shareholders in very general terms, such as “we have a responsibility to our shareholders.” This finding cuts across countries and holds even in the United States and the United Kingdom. The data indicate that countries whose companies are more inclined to declare a commitment to shareholders rank higher in the various indices of minority protection proposed in the recent literature (La Porta et al., 1998, 2002; Daouk, Lee, and Ng, 2006; La Porta, López-de-Silanes, and Shleifer, 2006; Djankov et al., 2008). An apparent reluctance by US managers to openly commit to shareholder value has been observed also by Stout (2005), who states that there are no provisions establishing shareholder primacy in US corporate charters at the IPO stage.

The relevant question, of course, is what managers actually do. Therefore, the third step in our analysis is to examine whether firms that express even a vague commitment to shareholders in their mission statements perform better. To this end, we regress firm performance on commitment to shareholders and various control variables. Firms willing to openly admit a commitment to shareholders seem to do better regardless of whether we measure performance with abnormal stock price performance or accounting metrics such as return on assets (ROA) and return on equity (ROE). We confirm this finding when adopting an estimation procedure that addresses the

problem of endogeneity and potentially weak instruments, and when replicating the analysis with a control sample.

Our paper is partly related to Tirole (2001). He develops an economic analysis of the concept of shareholder value and gives three arguments in favor of shareholder value: 1) it makes up for the dearth of pledgeable income, 2) it provides managers with a clear mission, and 3) it facilitates decision making. He concludes, however, that these benefits do not quite vindicate a hard line position on shareholder value. Shareholder value exerts externalities on a number of stakeholders in the firm and, as such, generates biased decision making. Tirole's analysis is complementary to what we do. As pointed out, we discuss the broader welfare justification of shareholder value. Moreover, we examine whether competitive markets induce firms to embrace that target and draw attention to the fact that shareholder value is an ill-defined concept.

We see the main contribution of the paper in the discussion of the limits of the shareholder value maximization target and in the puzzling worldwide reluctance we uncover to publicly endorse it. We do not know whether or not firms are committed to maximizing shareholder wealth. It is puzzling, however, that the agent does not at least state the intention of benefiting the alleged principal. Political considerations cannot be the explanation since it would be very easy to couch a commitment to shareholders in politically acceptable terms. The main reason, we believe, is that shareholders at large are not the shareholders of reference since they are unable to penalize managers for pursuing the wrong policies. The relevant shareholders are the current and potential blockholders. And, the way to reach them would seem to be direct communication, as opposed to anonymous declarations of principle.

The remainder of the paper is organized as follows. Section I examines normative and factual arguments in support of the shareholder value maximization target. Section II takes a look at corporate mission statements. Section III investigates whether shareholder-friendly attitudes translate into shareholder-friendly firm performance. Section IV tests the robustness of the results with a control sample. Finally, Section V provides our conclusions.

I. Principles

This section investigates whether welfare arguments or economic logic compel managers to adopt shareholder value maximization as the firm's ultimate target. We begin with a discussion about its social desirability.

A. The Social Desirability of Shareholder Value Maximization

The logic for a normative consensus holds that shareholder value maximization is desirable because it contributes to the maximization of social welfare.² This belief rests, in part, on the First Fundamental Welfare Theorem (Salanié, 2000), which states that a competitive equilibrium (one in which firms maximize profits and consumers maximize utility) is a Pareto-efficient

²Blair (1995) writes that "the third public interest argument used to justify assigning control rights to shareholders is that shareholders are the residual claimants. . . . To the extent that this is true, maximizing value for shareholders is equivalent to maximizing the social value of corporations, and it follows that it would be socially optimal to give control rights to shareholders to ensure that share value is maximized." Jensen (2001) argues that "two hundred years of work in economics and finance implies that in the absence of externalities and monopoly (and when all goods are priced), social welfare is maximized when each firm in an economy maximizes its total market value."

plan. The assumptions are complete markets, price-taking behavior, perfect information, zero transaction costs, and local nonsatiation of preferences. Under these assumptions, shareholder value maximization is equivalent to firm value maximization. The problem is that the theorem's assumptions are not always met in the real world.

For instance, some externalities are not priced by the market and some producers and consumers have market power. In addition, markets are incomplete, meaning that profit (or shareholder value) maximization is not well defined to begin with (Grossman and Hart, 1979). Furthermore, transaction and information costs are not zero implying that conflicts of interest cannot always be prevented or resolved. The classic example of such conflicts is the risky and wasteful investment policies a shareholder value maximizing firm may want to follow when it is close to defaulting on its debt obligations (Jensen and Meckling, 1976). Under many of these conditions, other maximands than shareholder value can lead to higher firm value and social welfare. Allen, Carletti, and Marquez (2007), for example, demonstrate that stakeholder-oriented firms can have higher value than shareholder-oriented firms. Moreover, various authors, including Blair (1995) and Zingales (2000), point out that employees frequently are or should be residual claimants. Finally, utility functions are not independent across individuals. Therefore, some people might object to shareholder value maximization because it leads to or maintains what in their view is an unfair wealth distribution.³

Still, even if all its assumptions are given, all the First Welfare Theorem says is that competition brings about an efficient allocation of resources. This property applies to any initial distribution of resources, even one in which a small minority of the population holds 99% of the economy's initial endowment. Hence, it is difficult to resort to the First Welfare Theorem to claim that shareholder value maximization induces a social optimum. Yet, one could perhaps attain the social optimum by imposing lump sum taxes on richer individuals to correct for "inequalities," and then let open markets bring about Pareto efficiency. According to the Second Fundamental Welfare Theorem, every Pareto-efficient allocation can be supported by a general equilibrium set of prices, given a suitable reallocation of endowments. The assumptions include convex, continuous, nondecreasing and locally insatiable preferences, and convex production sets (Kreps, 1990).

Unfortunately, the Second Fundamental Welfare Theorem is of no big help either. First, and foremost, the hypothetical social planner has to have an idea of the equilibrium that maximizes social welfare. Yet, that requires interpersonal utility comparisons, a hopeless exercise.⁴ Second, whether socially optimal equilibrium can be reached by competitive markets and some redistribution of initial endowments depends on whether that equilibrium is unique and whether the price adjustment process is globally stable (Bryant, 1994). Third, the prospect of redistribution is likely to create adverse incentives inconsistent with a social optimum.

Thus, economic theory does not demonstrate that shareholder value maximization is best for society as a whole. Still, companies might not be given a choice. Competitive markets for goods and services, capital, and managerial labor might force managers, like it or not, to maximize shareholder value. Let us take a closer look at that factual argument.

³It is fairly well documented that an increase in everybody's wealth is not necessarily Pareto efficient if some of us receive a little and others a lot. Utility functions are generally interdependent (see Bazermann and Moore, 2008 and the literature cited therein).

⁴The discussion of whether interpersonal utility comparisons make sense dates back a long time in the history of economic thought. One century ago, Pareto (1906) argued that utility is merely an ordinal representation of personal preferences, not a cardinal one.

B. Market Forces and Shareholder Value Maximization

Even though systematic evidence is lacking (Allen and Gale, 2000), it would be hard to deny that competition forces inefficient firms to cut costs and focus on customer needs. Those that do not adapt are eventually driven out of the market, and their managers lose their jobs and the associated rents, power, and prestige. Competition, however, simply sets a survival condition, namely, that firms cover their contractual costs (Alchian, 1950).⁵ Managers can survive the challenges of competition even if they do not maximize economic profits, let alone shareholder value. The argument that product markets put pressure on managers to maximize shareholder value is unconvincing. Shleifer and Vishny (1997) second this logic by stating, “While we agree that product market competition is probably the most powerful force toward economic efficiency in the world, we are skeptical that it alone can solve the problem of corporate governance.”

Still, competitive product markets are not the only markets that could impose a common target on managers. There are also capital markets. It would seem that truly open capital markets leave managers no option but to maximize shareholder value. One can argue, however, that this is not necessarily the case either.

Financial markets arbitrage differences between prices and perceived intrinsic values. When investors believe stocks are underpriced, they buy. In extreme cases, they try to obtain control and make managerial changes (Manne, 1965; Jensen, 1988; Scharfstein, 1988; Martin and McConnell, 1991; Allen and Gale, 2000). The takeover threat would seem to induce managers who care about their jobs to pursue policies that increase shareholder value.⁶ Whether that threat is actually effective, however, is debatable. Bebchuk, Coates, and Subramanian (2002) contend that gaining control against opposing managers is difficult and expensive.

Moreover, the takeover logic does not necessarily hold when stocks are overpriced. Because of asymmetric information, managers will, in many cases, know when the firm is overvalued (if nothing else, this is the rationale behind financing decisions à la Myers and Majluf, 1984), and, being aware of overvaluation, should discourage them from boosting stock prices further. If they did, they would put their jobs at risk with false and misleading signals to investors (Jensen, 2005).

All told, financial market arbitrage does not necessarily require managers to seek higher shareholder value. One could make a case that capital markets do not provide financing to firms that do not maximize investor value, but this contention is not very convincing either. Companies are able to obtain capital even if they do not generate the highest value for new investors. The only thing they have to do is pay returns commensurate with the time value of money and risk. And to be able to do that, they simply have to cover costs, not generate economic rents (let alone the highest possible rents). Firms that cover costs are able to pay interest and, therefore, satisfy banks and other debt holders. The same applies with respect to equity holders. As long as firms generate enough cash to cover their cost of equity, and as long as capital markets anticipate that behavior, stockholders will not lose any money and will be willing to invest.

⁵Allen and Gale (2000) make a similar evolutionary argument. They stress that firms have to do more than minimize costs to survive. The argument we are making, namely, that firms have to cover their costs to survive, is not necessarily inconsistent with theirs. There is a substantial literature that examines the conditions under which value maximization in competitive markets is unanimously supported by firm owners (Hart, 1979; Grossman and Stiglitz, 1980; DeAngelo, 1981; Van Hulle, 1983 and the literature cited therein). We are interested in a different question here, namely, whether competition forces managers to seek the target of shareholder value maximization.

⁶The ability of the market for corporate control to discipline managers has been the subject of extensive discussions in the literature (Becht, Bolton, and Röell, 2003; Kini, Kracaw, and Mian, 2004). Free-rider problems (Grossman and Hart, 1980) complicate hostile takeovers. As it turns out, hostile takeovers are very rare (Andrade, Mitchell, and Stafford, 2001), even in the United States.

Pressure to embrace shareholder value could conceivably also come from the managerial labor market. How managers and their firms perform is a signal that a competitive managerial labor market uses to set opportunity wages (Fama, 1980). Managers able to create value for their firm will have better outside job opportunities. This gives them a stake in the financial success of their firms and a powerful incentive to create firm value. This very situation and the fact that they might hold firm-specific human capital in the firm, however, turns managers into residual claimants with incentives that are not necessarily aligned with those of the firm's shareholders. As mentioned before, this can happen when the firm is close to financial default or because managers and shareholders have different risk exposure. Hence, competitive pressures in the managerial labor market do not necessarily induce managers to always seek higher shareholder value.

All in all, competitive markets do not unconditionally encourage managers to increase share prices. If managers want to protect their jobs and the power and prestige they derive from them, they will presumably cater to large current and potential shareholders since they are the ones with the incentive and the power to threaten jobs if their interests are not respected. Not surprisingly, corporations spend considerable resources communicating with and caring for large shareholders. When asked how much longer he wanted to stay as chairman of the board of Roche, for example, Franz Humer said he would remain for as long as shareholders, in particular, the majority shareholders, wished (SonntagsZeitung, March 15, 2009, p. 57).

Consistent with our argument, Shleifer and Vishny (1997) reason that, together with legal protection from expropriation, concentrated ownership is the most effective corporate governance mechanism. Large shareholdings in some form are the norm worldwide, including in the United States (Holderness, 2009); the possible exception is the United Kingdom (Shleifer and Vishny, 1997). Yet large shareholders "represent their own interests, which need not coincide with the interests of other investors in the firm" (Shleifer and Vishny, 1997).

As it turns out, shareholder value would not be an easily implementable target even if managers wanted to pursue it. What follows explains why.

C. Shareholder Value Maximization: An Ill-Defined Target

With perfect and complete capital markets, anything the firm does to increase share prices benefits shareholders. This is true whether they want to buy, sell, or simply hold their shares. But when we drop these assumptions, shareholder unanimity can go away and shareholder value becomes an ill-defined target.

One reason is shareholders' diverging investment horizons. Suppose managers are aware that the stock's intrinsic value is higher than its market value. If so, it is unclear what shareholder value maximization means. The answer depends on whether stockholders want to sell or hold their shares. If they want to sell, then it is important that the current stock price be high; it might, therefore, make sense for firms to engage in costly signaling activities, such as share buybacks, to correct the mispricing. In contrast, if stockholders do not want to sell, costly signaling activities make little sense (Miller, 1987). The same applies in the case of illiquidity of the firm's stock. It probably does not benefit long-term shareholders if firms spend resources to reduce the illiquidity discount of young firms. Firm growth eventually makes the illiquidity discount go away.

Differential horizon problems among shareholders are not unusual. They have been observed, for example, among mutual fund shareholders (Johnson, 2004) and among institutional investors in the market for corporate control (Gaspar, Massa, and Matos, 2006). Should shareholder value maximizing managers try to benefit short-term shareholders or should they ignore them and focus on long-term shareholders?

There are other reasons why shareholders might lack unanimity, even ignoring heterogeneous beliefs. As we just mentioned, large shareholders have interests that can diverge from those of minority shareholders. The literature regarding the private benefits of control offers plenty of arguments and evidence about that (Barclay and Holderness, 1989; Dyck and Zingales, 2004). The lack of shareholder unanimity is not restricted to the conflict of interests between these two groups of shareholders, however. Some shareholders might simultaneously be bondholders, creditors, suppliers, employees, or competitors of the firm. They might directly or indirectly hold shares of competing firms (Hu and Black, 2007; Matvos and Ostrovsky, 2008). Therefore, their net financial interests might be at odds with those of other shareholders.

In principle, shareholder disagreement could be resolved with side payments. These payments, however, are sure to work perfectly only in frictionless markets. In the real world, they may not be possible due to information and transaction costs. Conflicts of interest among shareholders are real and without a simple solution.

In sum, there is no compelling case one can make that shareholder value maximization is society's most desirable corporate target or that competition pressures managers to seek the highest value for current shareholders. Perhaps, more importantly, shareholder value is an ambiguous corporate scorecard to begin with. Ultimately, however, whether shareholder value is a widespread corporate scorecard is an empirical issue. In what follows, we investigate whether firms mention shareholders in their mission statements. As we said, if shareholder value were such a meaningful corporate target, we would expect a vast majority of managers to commit to it in one form or another, even if in politically neutral terms.

II. Firms' Commitment to Shareholders

To assess whether managers mention shareholders in their formal and informal mission statements, we examine the websites of 1,800 listed firms in 23 different countries in 2006-2007.⁷ These statements are often praised as one of the main tools to rally company employees behind a common goal (Bart, 2001). The investigation proceeds in four steps. We first discuss the data. Then, we ask how prominent shareholders' well-being is displayed in the corporate mission statements. Third, as a way to double check the credibility of that information, we inquire as to whether companies in countries with better investor protection declare a deeper commitment to shareholders. Mission statements have an official character and are hardly spur of the moment, but we want to verify just the same. And fourth, we look for evidence that firms are hesitant to disclose an unconditional obligation to shareholders because of their political exposure.

A. Data

Our sample is composed of the 23 countries in the intersection of the five recent international corporate governance studies by La Porta et al. (1998, 2002), Daouk, Lee, and Ng (2006), La Porta, López-de-Silanes, and Shleifer (2006), and Djankov et al. (2008). For the 13 countries with the largest stock markets according to the World Association of Stock Exchanges, we select the 100 corporations with the biggest market capitalization as of the end of 2006. For the remaining

⁷There are also surveys that have examined corporate goals. Joerg, Loderer, and Roth (2004) report results of a 1998 survey of the targets that Swiss senior managers and directors pursue. According to the results, shareholder value maximization is often and explicitly not one of them. Survey results reported in Allen and Gale (2000) indicate that in the opinion of Japanese, French, and German managers, shareholders are far from being the most important stakeholders; the vast majority of managers surveyed in the United States and the United Kingdom, however, think the opposite.

10 countries, we take the largest 50 corporations. Altogether, there are 1,800 companies in the sample.

Our investigation covers late 2006 and early 2007. To collect our data, we look for corporate mission statements on firms' websites. We systematically examine the sections with general information about the company (those labeled "about us" or "our company") and the sections that address investors directly (those labeled "investor relations" or "financial information"). The data are collected by several researchers reading through the websites. To ensure consistency, we specified detailed guidelines regarding what sections of the corporate website to search, and how to match phrases found on these websites with our categories of corporate goals. We also allowed people involved in the data collection process to add comments for special cases, which we then reviewed. Finally, we randomly double checked to ensure that the collection process followed these guidelines. We focus on the six most frequently mentioned targets: 1) shareholder value, 2) profitability, 3) stakeholder value, 4) well-being of employees, 5) independence, and 6) corporate social responsibility (CSR). They are defined in Table I. In assessing whether a firm aims at shareholder value creation, we look for claims such as "we create value for our shareholders," "we want to provide excellent returns for our shareholders," and "we have a responsibility to our shareholders." Firms seek profitability when they write things like "our group is aiming for a high level of profitability" or "we want to increase our corporate profitability." Firms are classified as focusing on stakeholder value when they make explicit statements to that effect.⁸ Furthermore, we presume that firms want to create value for their employees when they mention things like "employees are our core assets" and "we see the personal and professional growth of each employee as a measure of performance." Firms pursue independence when they claim, for example, that "we want to maintain economic independence" and "corporate independence provides the basis for our success." CSR is the target that firms strive for when stating that they "do not take professional or ethical shortcuts," and "respect the ability of future generations to meet their needs." As pointed out further down, many firms aim for more than one of these targets at the same time.

We begin the analysis with Table II, which provides descriptive statistics concerning the companies in our sample, sorted into common law and civil law countries. The latter countries are grouped by legal family (Scandinavian, German, and French). Common law countries give shareholders the strongest protection and French civil law countries the weakest, while German and Scandinavian civil law countries fall between the two (La Porta et al., 1998). Column 1 lists the various sample sizes. Column 2 reports that almost all companies (94%) have websites in English, making them comparable. And Column 3 documents that a vast majority of these companies, particularly in common law countries, provide information about the goals they favor.

B. Commitment to Shareholders

Columns 1 to 6 of Table III list the preference for various corporate goals among the 1,686 firms with a website in English (our so-called unconditional sample). Very few firms mention shareholders, about 35 out of every 100. Even countries with a reportedly friendly attitude toward shareholders do not seem particularly eager to advertise that inclination. In the United States, in particular, the proportion in question is 38%, and in the United Kingdom, it is only marginally larger at 40%. Remember, all we are looking for are statements mentioning the importance of

⁸Stakeholders include shareholders, employees, customers, suppliers, and the environment. One should note that this target is logically impossible to achieve unless one specifies the trade-offs between the interests of the various parties in the firm (Jensen, 2001, and, implicitly, Licht, 2004). All else being equal, for example, lower prices make consumers better off and higher salaries benefit employees and managers, yet both can reduce shareholder value.

Table I. Variable Definitions

This table presents variable definitions and associated descriptive statistics. It includes all variables used in the multivariate analysis. For the main sample, the data concerning corporate targets refer to the year 2006. For the control sample, they refer to 2004. The various indices of minority shareholder protection are taken from the papers in which they were developed.

Variable	Description
<i>Panel A. Targets</i>	
<i>Commitment to Shareholders</i>	Binary variable equal to one if the company's mission statement expresses a commitment to shareholder value, and equal to zero otherwise. We presume that firms aim at shareholder value creation when they make claims such as "we create value for our shareholders," "we want to provide excellent returns for our shareholders," and "we have a responsibility to our shareholders."
<i>Commitment to Profits</i>	Binary variable equal to one if the company's mission statement expresses a commitment to profits, and equal to zero otherwise. Profitability is the target pursued when firms state that "our group is aiming for a high level of profitability" or "we want to increase our corporate profitability."
<i>Commitment to Stakeholders</i>	Binary variable equal to one if the company's mission statement expresses a commitment to the firm's stakeholders, and equal to zero otherwise. We presume that firms want to create value for their stakeholders when they state that "we want to serve our stakeholders better" or "we want to create lasting value for our stakeholders."
<i>Commitment to Employees</i>	Binary variable equal to one if the company's mission statement expresses a commitment to the firm's employees, and equal to zero otherwise. We presume that firms want to create value for their employees when they state that "employees are our core assets" or "we see the personal and professional growth of each employee as a measure of performance."
<i>Commitment to Independence</i>	Binary variable equal to one if the company's mission statement expresses a commitment to the firm's independence, and equal to zero otherwise. We presume that firms aim to maintain independence when they make claims such as "we want to maintain economic independence" or "corporate independence provides the basis for our success."
<i>Commitment to CSR</i>	Binary variable equal to one if the company's mission statement expresses a commitment to corporate social responsibility (CSR), and equal to zero otherwise. CSR is the target pursued when firms state that they "do not take professional or ethical shortcuts," "have a positive impact on the communities in which we operate," "uphold the highest ethical standards and are accountable for all that we do," or respect "the ability of future generations to meet their needs."
<i>Panel B. Country-Specific Variables</i>	
<i>Common Law</i>	A binary variable equal to one if the company belongs to a common law country, and equal to zero otherwise. <i>Source:</i> La Porta et al. (1998).
<i>Anti-Self-Dealing</i>	A measure of legal protection of minority shareholders against expropriation by corporate insiders. The index is calculated as the average of ex ante and ex post private control of self-dealing. Index values range from 0 to 1, and higher values suggest better protection. <i>Source:</i> Djankov et al. (2008).
<i>Anti-Director</i>	A measure of the protection of minority shareholders in the corporate decision-making process. The index is formed by summing: 1) vote by mail, 2) shares not blocked or deposited, 3) cumulative voting, 4) oppressed minority, 5) preemptive rights, and 6) capital to call a meeting. The index ranges from 0 (weak protection) to 6 (strong protection). <i>Source:</i> Djankov et al. (2008).

(Continued)

Table I. Variable Definitions (Continued)

Variable	Description
<i>Panel B. Country-Specific Variables (Continued)</i>	
<i>Liability Standards</i>	An index of liability standards. It equals the arithmetic mean of: 1) liability standard for the issuer and its directors, 2) liability standard for distributors, and 3) liability standard for accountants. Higher index values refer to stronger liability standards. <i>Source:</i> La Porta, López-de-Silanes, and Shleifer (2006).
<i>Capital Market Governance</i>	An index that measures the capital market regulations in the areas of insider trading, earnings opacity, and short-selling restrictions. Higher index values are related to better capital market governance. <i>Source:</i> Daouk, Lee, and Ng (2006).
<i>Ownership Concentration</i>	The average percentage of common shares owned by the top three shareholders in the 10 largest nonfinancial, privately owned domestic firms in a given country. A firm is privately owned if the state is not a known shareholder in it. <i>Source:</i> La Porta, López-de-Silanes, and Shleifer (2006) and the various sources cited therein.
<i>Distance to Equator</i>	Distance of the country's capital to the equator in thousands of kilometers.
<i>Marketcap-to-GDP</i>	The country's stock market capitalization divided by its GDP. <i>Source:</i> Djankov et al. (2008).
<i>Panel C. Firm-Specific Variables</i>	
<i>Cross-list</i>	Binary variable equal to one if the company has cross-listed in the United States, and equal to zero otherwise. The data are from JP Morgan and refer to the year 2006 for the main sample and 2004 for the control sample.
<i>Dividend Yield</i>	The company's dividend yield measured as dividends per share divided by share price. This information is from Worldscope and refers to the fiscal year 2006 (2004) for the main (control) sample.
<i>Firm Size</i>	The natural logarithm of the firm's book value of total assets in US dollars. This information is from Worldscope and refers to the end of fiscal year 2006 (2004) for the main (control) sample.
<i>Largest Shareholder</i>	The ownership stake of the company's largest shareholder. Ownership data are from Bureau van Dijk and refer to the end of fiscal year 2005.
<i>Alpha</i>	Abnormal stock price performance measured as the intercept estimate ($\hat{\alpha}$) in the following regression model: $R_t - R_{F,t} = \alpha + \beta \times (R_{M,t} - R_{F,t}) + \varepsilon_t,$ <p>where the subscript t refers to a given month, R_t is the company's stock return, $R_{M,t}$ is the return of the market portfolio, $R_{F,t}$ is the risk-free rate, and ε_t is an error term with the usual properties. Returns are monthly and in US dollars. For the main sample, the regression is estimated for the 2002-2006 period. For the control sample, we use the 2000-2004 period. The market portfolio is the MSCI World Index, and the three-month T-bill rate measures the risk-free rate. <i>Source:</i> Datastream.</p>
<i>ROA</i>	The company's annual book return on assets measured as earnings before interest after taxes divided by the book value of assets. This information is from Worldscope and refers to the fiscal year 2006 (2004) for the main (control) sample.
<i>ROE</i>	The company's annual book return on equity measured as net income divided by the book value of common equity. This information is from Worldscope and refers to the fiscal year 2006 (2004) for the main (control) sample.

Table II. Sample Composition of Firms

This table lists the number of sample firms in each country and the various countries by legal origin. The sample includes the 23 countries mentioned in the corporate governance papers by La Porta et al. (1998, 2002), Daouk, Lee, and Ng (2006), Djankov et al. (2008), and La Porta, López-de-Silanes, and Shleifer (2006). For the 13 countries with the largest stock markets according to the World Association of Stock Exchanges, we selected the 100 largest corporations based on market capitalization as of the end of 2006. For the remaining 10 countries, we took the 50 largest corporations. Altogether, there are 1,800 companies in the sample.

Countries	Total Number of Firms	Firms with Web- site in English	Firms with Stated Goals
	(1)	(2)	(3)
<i>Common law countries</i>			
English origin			
Australia	100	100	82
Canada	100	99	85
Hong Kong	100	90	65
Ireland	50	49	26
Singapore	50	48	41
United Kingdom	100	100	79
United States	100	100	91
<i>Civil law countries</i>			
Scandinavian origin			
Denmark	50	43	36
Finland	50	50	45
Norway	50	49	35
Sweden	100	97	85
German origin			
Austria	50	50	32
Germany	100	99	78
Japan	100	98	78
Switzerland	100	88	65
French origin			
Belgium	50	47	37
France	100	99	78
Greece	50	49	36
Italy	100	80	40
Mexico	50	39	28
Netherlands	100	92	73
Portugal	50	34	22
Spain	100	86	47
Total	1,800	1,686	1,284

shareholders. The country most favorably inclined toward shareholders seems to be Canada (64% of its firms mention shareholders), and the one least favorably inclined is Italy (only 14% of its firms make reference to shareholders). Comparatively more firms (43%) mention CSR, with a maximum of 67% in the United States.

Some colleagues have argued that websites are not the place to look for corporate mission statements. To address this concern, we compare our data with Haschak (1998), who collects

Table III. Corporate Targets

This table reports the targets that companies indicate in their mission statements. Companies are said to pursue a given target if their mission statement mentions it. The different targets are described in Table I. The unconditional sample comprises the 1,686 companies that have a website in English (Column 2 in Table II). The conditional sample includes the 1,284 companies that have a website in English and provide indications about their targets (Column 3 in Table II).

Countries	Unconditional Sample						Conditional Sample					
	Shareholder Value	Profitability	Stakeholder Value	Employees	Independence	CSR	Shareholder Value	Profitability	Stakeholder Value	Employees	Independence	CSR
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>Common law</i>												
English origin												
Australia	43%	7%	20%	27%	0%	36%	52%	9%	24%	33%	0%	44%
Canada	64%	15%	12%	16%	0%	33%	74%	18%	14%	19%	0%	39%
Hong Kong	32%	10%	13%	22%	1%	37%	45%	14%	17%	29%	2%	51%
Ireland	16%	2%	9%	4%	0%	27%	31%	4%	15%	8%	0%	50%
Singapore	48%	15%	8%	10%	0%	17%	56%	17%	10%	12%	0%	20%
United Kingdom	40%	11%	12%	14%	0%	48%	51%	14%	15%	18%	0%	61%
United States	38%	11%	17%	27%	2%	67%	42%	12%	19%	30%	2%	74%
<i>Civil law</i>												
Scandinavian origin												
Denmark	47%	14%	12%	29%	0%	40%	56%	17%	14%	33%	0%	47%
Finland	40%	54%	20%	24%	0%	72%	44%	60%	22%	27%	0%	80%
Norway	37%	8%	4%	10%	0%	33%	51%	11%	6%	14%	0%	46%
Sweden	52%	35%	4%	25%	3%	53%	59%	39%	5%	27%	4%	60%

(Continued)

Table III. Corporate Targets (Continued)

Countries	Unconditional Sample					Conditional Sample						
	Shareholder Value (1)	Profitability (2)	Stakeholder Value (3)	Employees (4)	Independence (5)	CSR (6)	Shareholder Value (7)	Profitability (8)	Stakeholder Value (9)	Employees (10)	Independence (11)	CSR (12)
German origin												
Austria	20%	2%	4%	27%	0%	26%	31%	3%	6%	13%	0%	41%
Germany	30%	17%	3%	20%	3%	39%	38%	22%	4%	26%	4%	50%
Japan	37%	14%	21%	10%	1%	54%	46%	18%	26%	13%	1%	68%
Switzerland	25%	16%	10%	16%	8%	60%	34%	22%	14%	22%	11%	82%
French origin												
Belgium	38%	16%	2%	24%	0%	38%	49%	19%	3%	30%	0%	49%
France	21%	14%	3%	25%	0%	47%	27%	18%	4%	31%	0%	60%
Greece	45%	18%	6%	20%	2%	39%	61%	25%	8%	28%	3%	53%
Italy	14%	8%	13%	6%	0%	34%	28%	15%	25%	13%	0%	68%
Mexico	31%	22%	5%	19%	0%	33%	43%	29%	7%	25%	0%	46%
Netherlands	26%	23%	22%	20%	8%	50%	33%	29%	27%	25%	10%	63%
Portugal	26%	15%	3%	12%	0%	41%	41%	23%	5%	18%	0%	64%
Spain	17%	10%	5%	12%	1%	31%	32%	19%	9%	21%	2%	57%
Total	35%	15%	11%	18%	2%	43%	45%	20%	14%	23%	2%	57%

the official mission statements of 912 US corporations from publications they sent him (mainly annual and 10-K reports). We randomly select every third of these mission statements and look for a commitment to shareholders. Thirty-seven percent of Haschak's (1998) firms express such a commitment, which is almost identical to our findings on the websites of US corporations (38%). Hence, we see no reason to believe that our information regarding corporate mission statements is somehow biased.

When we confine our attention to the firms that have a website in English and make reference to their targets (the so-called conditional sample), the proportion of firms that admit an inclination for shareholder value increases to 45% (Column 7). The proportion of those firms that declare a liking for CSR is now 57% (Column 12).

We also investigate whether firms calibrate their message to the intended audience. If so, firms would be more likely to express a commitment to shareholder value and profitability in their "investor relations" section, whereas commitments to stakeholders, employees, independence, and CSR would be made in the "about us" section. As it turns out, relatively few firms (27%) state their goals in their "investor relations" section to begin with. Moreover, there is no difference that we can find between the message conveyed in the "investor relations" and in the "about us" sections. For each target, a Pearson chi-square test rejects the null hypothesis of no difference between those messages with confidence better than 0.99.

There are various nonexclusive interpretations of the apparently lukewarm enthusiasm for shareholder value. First, that target could be such a politically sensitive issue that managers are unwilling to openly embrace it, even in the moderate terms investigated here. We find this interpretation difficult to believe, as it would be easy to couch a commitment to shareholders in a politically neutral way. For instance, by including a statement that the firm is dedicated to its shareholders provided it does not infringe upon the legitimate rights of the other stakeholders. We investigate this issue later on. Moreover, one does not find a similar reluctance in the codes of best practice of many of the countries under consideration. Most codes at least mention shareholders, even though with various qualifications. For example, the OECD (2004) Principles of Corporate Governance proclaim: "Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation."

Second, managers might truly disagree that shareholders should demand the largest fraction of the firm's economic rents. To many of them, shareholders, especially those who do not put up the original capital, but simply buy shares in the market, contribute little if anything to the firm. Hence, there is no reason why they should claim the largest share of the firm's surplus. If this interpretation were true, we would expect to find a difference in performance between the firms that make a commitment to shareholders and those that do not. We take a closer look at this issue shortly.

Third, as explained above, shareholder value maximization is hard to implement when shareholders have different investment horizons or different incentives, and there are frictions in the capital market. And fourth, managers may care only for large shareholders since they are the ones who can threaten their job security. Therefore, managers may feel little need to communicate their ultimate goals to shareholders at large. This is the explanation we favor, since it is rooted in the economics of the managers' situation. Not surprisingly, La Porta, López-de-Silanes, and Shleifer (1999) report that most large companies in the countries we are investigating have large shareholders (Holderness, 2009, confirms this for the United States).

Whatever the reason, managers appear to be reluctant to embrace shareholder value, at least in words. Of course, an analysis of words does not necessarily tell us what managers actually do.

We will address that issue in Section IV, but, first, let us assess, once again, the reliability of the declarations to shareholder value we gathered for our investigation.

C. Investor Protection and Commitment to Shareholders

We split the sample of firms by different country-specific measures of investor protection reported in the recent literature. We expect a positive correlation between a commitment to shareholders and investor protection. We distinguish firms by legal tradition of their country of incorporation (common law vs. civil law), anti-self-dealing provisions (Djankov et al., 2008), anti-director provisions (Djankov et al., 2008), liability standards (La Porta, López-de-Silanes, and Shleifer, 2006), capital market governance (Daouk, Lee, and Ng, 2006), ownership concentration (La Porta, López-de-Silanes, and Shleifer, 2006), and earnings opacity (Daouk, Lee, and Ng, 2006). The various measures of investor protection are binary variables equal to one if a given index value of a specific country lies above the sample median, otherwise the binary variables are set to zero. In the particular case of legal tradition, the binary variable assumes a value of one if the firm in question is incorporated in a common law country, and it equals zero otherwise. Formal definitions are in Table I.

Table IV reveals that firms incorporated in countries with better investor protection are shareholder friendlier regardless of what index we consider. Companies incorporated in common law countries or in countries that make it more difficult for corporate insiders to self-deal, that better protect minority shareholders in the corporate decision-making process, and that make it easier for investors to sue are more likely to state a commitment to shareholder value.⁹ The difference is about 10 percentage points. The allegiance to shareholder value is also greater in countries with more protective security laws, more accurate earnings disclosure, and with more dispersed ownership concentration. The difference in this case, however, is less pronounced and on the order of 5 percentage points. Note that even in countries with the best protection, the proportion of firms with a favorable predisposition toward shareholders is lower than 53%, on average.

D. Allegiance to Shareholders and Political Considerations

As previously mentioned, companies might be reluctant to openly disclose their allegiance to shareholders as doing so may antagonize employees or create a hostile external environment. To prevent this effect, we would expect managers to package their commitment to shareholders with simultaneous statements about the importance of creating a favorable environment for employees (internal politics) and pronouncements of a commitment to CSR (external politics). To find out whether that is the case, we estimate two separate logit regressions. In the first one, we regress the preference for employee satisfaction on determining factors including the commitment to shareholders. The specification takes the following form:

$$\begin{aligned} \text{Commitment to Employees}_i &= \beta_0 + \beta_1 \text{Commitment to Shareholders}_i + \beta_2 \text{Common Law}_i \\ &\quad \times \text{Commitment to Shareholders}_i + \beta_3 \text{Largest Shareholder}_i \\ &\quad + \beta_4 \text{Firm Size}_i + \varepsilon_i. \end{aligned} \quad (1)$$

⁹Interestingly, profitability is more popular among civil law countries (13% vs. 24%). When we combine the two targets, the difference between the two groups of countries disappears, 56% declare an affinity for shareholder value or profitability in common law as compared to 54% in civil law countries. Hence, there seems to be little difference between the two groups of countries when it comes to targeting efficient production, yet common law countries are marginally less reluctant than civil law countries to let shareholders enjoy the fruits of that policy, at least in words.

Table IV. Commitment to Shareholder Value and Investor Protection

This table reports the percentage of firms that disclose an obligation to shareholder value in their mission statements. We split the 1,284 firms in the conditional sample in two groups depending upon whether their country of incorporation is above or below the median value of a given investor protection index (in the case of legal tradition, we distinguish between common and civil law countries). The *p*-values refer to a group-proportion test of difference. The relevant indices considered are described in Table I. The data are from the year 2006.

Targets	Above Median (Common Law in the Case of Legal Tradition)	Below Median (Civil Law in the Case of Legal Tradition)	Difference	P-Value
Legal tradition	52.03%	41.47%	10.55%	0.000
Anti-self-dealing index	50.51%	39.36%	11.15%	0.000
Anti-director index	52.28%	37.41%	14.86%	0.000
Liability standard index	50.20%	42.01%	8.19%	0.030
Capital market governance index	48.28%	41.47%	6.81%	0.015
Ownership concentration	41.94%	44.35%	-2.41%	0.403
Earnings opacity index	35.22%	29.44%	5.78%	0.009

The subscript *i* identifies the company and ε is an error term with the usual properties. The variable *Commitment to Employees* is a binary variable equal to one if the company's website expresses a commitment to the firm's employees, and zero otherwise. The regression arguments include the interaction of *Common Law* and *Commitment to Shareholders* to capture differences between legal origins. We also control for the percentage of shares directly held by the largest shareholder and for firm size.¹⁰ The various variables in the regression are defined in Table I and descriptive statistics are displayed in Table V.

The second regression specification is the same as the one in Equation (1) except for a different dependent variable, namely, one that measures the commitment to CSR. The binary variable *Commitment to CSR* equals one if the website mentions that commitment, and zero otherwise.

The results are presented in Table VI. They confirm the existence of a reluctance to openly admit a commitment to shareholders for reasons of internal and external politics. Consider the results related to *Commitment to Employees* first (Column 1 of the table). The coefficient of the variable *Commitment to Shareholders* is positive and significant with confidence better than 0.99. This is consistent with the claim that firms that express an obligation to stockholders want to prevent internal frictions by expressing a simultaneous commitment to the welfare of employees. There is also weak evidence that this concern for internal harmony is lower in common law countries (the coefficient of the product of the binary variables *Common Law* \times *Commitment to Shareholders* is negative and marginally significant). There is no evidence, however, that larger firms or firms with a large shareholder are more concerned about internal politics (the results do not change if we omit these variables).

Column 2 studies the obligation to CSR. Consistent with the hypothesis that firms are careful to avoid external political problems, we find a sizable association between the commitment to shareholders and the obligation to CSR. There is also reason to believe that common law countries are less sensitive to political considerations than civil law countries are (the coefficient of the

¹⁰In unreported regressions, we also control for industry effects and find similar results. Since industry information is missing for a considerable number of firms, we do not report these results in separate tables.

Table V. Descriptive Statistics

This table reports descriptive statistics for regression variables. The variables are described in Table I. The data refer to the year 2006 except for the various corporate governance indices that are taken from a variety of papers. The table covers the 1,686 companies that have a website in English (Column 2 in Table II).

Variables	Average	Median	Min	Max	SD	Number of Observations
<i>Commitment to Shareholder</i>	0.345	n.a.	n.a.	n.a.	n.a.	1,686
<i>Commitment to Employees</i>	0.180	n.a.	n.a.	n.a.	n.a.	1,686
<i>Commitment to CSR</i>	0.431	n.a.	n.a.	n.a.	n.a.	1,686
<i>Common Law</i>	0.348	n.a.	n.a.	n.a.	n.a.	1,686
<i>Anti-Self-Dealing</i>	0.515	0.460	0.180	1.000	0.243	1,686
<i>Cross-list</i>	0.272	n.a.	n.a.	n.a.	n.a.	1,686
<i>Distance to Equator</i>	4.866	5.264	0.142	6.686	1.371	1,686
<i>Firm Size</i>	8.648	8.494	2.580	14.490	2.009	1,467
<i>Largest Shareholder</i>	0.301	0.247	0.0001	1.000	0.236	1,425
<i>Marketcap-to-GDP</i>	116.1	102.0	16.4	361.0	78.3	1,686
<i>Alpha</i>	0.012	0.012	-0.063	0.096	0.015	1,559
<i>ROA</i>	0.079	0.070	-2.741	0.788	0.119	1,444
<i>ROE</i>	0.184	0.173	-8.046	5.941	0.348	1,437

Table VI. Importance of Political Considerations

This table investigates the importance of political considerations when firms express an obligation to shareholders in their mission statements. The analysis is based on multivariate logit regressions with Huber-White corrected standard errors. The dependent variables are, alternatively, *Commitment to Employees* and *Commitment to CSR*, as defined in Table I. Independent variables are also defined in Table I. Numbers in parentheses are z-statistics. The conditional sample is composed of the 1,284 companies that have a website in English and provide indications about their targets (Column 3 in Table II).

Independent Variables	<i>Commitment to Employees</i>	<i>Commitment to CSR</i>
	(1)	(2)
<i>Commitment to Shareholders</i>	1.248*** (7.13)	0.356** (2.33)
<i>Common Law</i> × <i>Commitment to Shareholders</i>	-0.391* (-1.79)	-0.510** (2.44)
<i>Largest Shareholder</i>	-0.470 (-1.32)	-0.289 (-0.98)
<i>Firm Size</i>	0.011 (0.30)	0.151*** (4.41)
Constant	-1.766*** (-4.73)	-0.999*** (-3.07)
Number of observations	988	988
LR chi-squared	54.14***	25.80***
Pseudo R^2	5.36%	2.19%

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

product of the binary variables *Common Law* \times *Commitment to Shareholders* is negative and statistically significant). Unlike what we observe in the case of internal politics, we also find evidence that large firms give more consideration to CSR, possibly due to their greater exposure to external politics. Large stockholders, however, do not seem to affect the commitment to CSR.

To assess the robustness of the results of the two regressions, we add proxies for the political environment in each individual country, namely, the degree of unionization, the percentage of Protestants, a democracy score, and the country's top marginal tax rate (not shown in a separate table).¹¹ As it turns out, CSR is more likely in democracy-minded countries. In contrast, commitment to employees is more widespread in countries with a large maximum tax rate (and, therefore, a stronger political consensus for redistribution), borderline significant in countries with comparatively more Protestants (and, consequently, possibly a more pronounced sense for fairness), and less frequent in countries with a high degree of unionization (firms might feel that employees do not require extra support). In either regression, the sign and significance of the coefficient associated with the commitment to shareholders remain unchanged.

III. Commitment to Shareholders and Performance

A. The Evidence

We have seen that comparatively few companies are willing to mention the importance of shareholders in their mission statements. We have also seen that considerations of internal and external politics induce them to phrase their allegiance in politically correct ways. The last step in our investigation is to ask whether companies willing to state an obligation to shareholders perform better. Our intention is not to distinguish between firms that do and do not seek shareholder value. We do not have enough information to make that distinction. Firms that do not mention shareholders on their websites might have good reasons to do so in spite of their commitment to shareholder value. We mentioned four such reasons above. Yet, we want to know whether words correspond to actions. We measure performance alternatively as abnormal stock price performance (*alpha*), *ROA*, and *ROE*.¹² Whereas *alpha* is a measure of performance based on the beliefs of capital market participants, *ROA* and *ROE* are measures of operational performance unrelated to those beliefs. *ROE* is the ratio of net income divided by common equity at the end of 2006. *ROA* is the firm's earnings before interest after taxes divided by the book value of assets at the end of 2006.

For each individual firm in the sample, *alpha* is measured as the intercept estimate ($\hat{\alpha}$) of the following market model:

$$R_t - R_{F,t} = \alpha + \beta \times (R_{M,t} - R_{F,t}) + \varepsilon_t, \quad (2)$$

where the subscript t refers to a given month, R_t is the company's stock return, $R_{M,t}$ is the return on the market portfolio, $R_{F,t}$ is the risk-free rate, and ε_t is an error term with the usual properties.

¹¹ These variables are defined as in La Porta et al. (1998). We are grateful to A. Shleifer for making the data available on his website (<http://www.economics.harvard.edu/faculty/shleifer/dataset>).

¹² In earlier versions of the paper, we also measured performance with Tobin's Q. There is essentially no correlation we can find between *Commitment to Shareholders* and Tobin's Q. The problem is that we have reason to suspect that Tobin's Q is incorrectly computed in the case of firms with dual-class stock.

Since the data are monthly, the intercept measures monthly abnormal performance. All returns are expressed in US dollars and taken from Datastream. The regression is estimated for the 2002-2006 period. The market portfolio is the MSCI World Index, and the three-month US T-bill rate measures the risk-free rate.

Panel A of Table VII regresses performance on the commitment to shareholders to assess whether firms with such a commitment perform better. The estimates in Columns 1 to 3 of the table generally support that contention. The coefficient associated with the commitment to shareholders is positive and statistically significant when we measure performance with *alpha* and *ROE*; it is positive, yet insignificant when we measure it with *ROA*. The explanatory power of the regressions, however, is generally fairly low, indicating that there might be more important determinants of performance than a formal commitment to shareholder value.

The control variables in the regressions include *Firm Size*, which tends to have a negative and significant coefficient. They also include *Cross-list*, a binary variable equal to one if the company has chosen to cross-list in the United States, and zero otherwise.¹³ Doidge, Karolyi, and Stulz (2004) find that firms cross-listed in the United States perform better than other firms from the same countries. Our data cannot confirm that finding. We also control for the stake of the largest shareholder. Its influence is generally irrelevant (except when we measure performance with *alpha*). Finally, to limit a possible omitted variable bias, we control for past performance in the regressions involving *ROA* and *ROE*.¹⁴ Note that doing so biases our investigation against finding an association between declarations of commitment to shareholder value and performance. If such declarations are truthful, they should also be reflected in past performance measures. The results indicate that past performance is positively correlated with current performance. These results remain the same in our subsequent regression specifications, which is why we will not mention them again.

The observed positive correlation between performance and commitment to shareholder value does not necessarily mean causation. Shareholder-friendly companies might perform better because managers deliberately try to create shareholder value. However, it could also be the other way around, namely, that successful companies are more likely to make shareholder-friendly declarations as there are rents to distribute. Additionally, perhaps unsuccessful companies refrain from such declarations to avoid embarrassment, in which case the only companies to say something are the successful ones. To address this potential endogeneity bias and to determine whether at least some of the causality goes from declarations to actions, we replicate the analysis with an instrumental variable approach.

Following Wooldridge (2002), we instrument the commitment to shareholders with a probit regression. Based on its sizable correlation with that commitment (see Table IV), we select the anti-self-dealing index of Djankov et al. (2008) as an instrumental variable. Firms in countries with a higher anti-self-dealing index value might have a more established tradition to care for shareholders. As a second instrument, we choose dividend yield. Firms with a higher dividend yield tend to have less important growth opportunities and might face more serious free cash flow problems. Therefore, they may have stronger incentive to signal their commitment to shareholders. In the regression, firm size, stake of the largest blockholder in the firm, and cross-listing status are the control variables. The rationale for the latter control is that following the logic in Doidge,

¹³In unreported regressions, we also include industry dummies. This does not affect our results but reduces the sample size considerably due to missing information concerning industry classification.

¹⁴This control also makes sense because of the finding in Joerg, Loderer, and Roth (2004) that firms are more likely to express a commitment to shareholders after poor performance.

Table VII. Corporate Targets and Performance

This table examines the correlation between corporate targets and performance. Panel A is dedicated to the target of shareholder value for the subsample of firms that have a website in English and provide indications about their targets (Column 3 in Table II). Columns 1 to 3 estimate an OLS regression of performance against the declared commitment to shareholder value. Columns 4 to 6 replicate the analysis with an instrumental variable (2SLS) approach, where *Anti-Self-Dealing* and *Dividend Yield* serve as instruments for *Commitment to Shareholders*. The first-stage regression is estimated as a probit model and includes the variables *Firm Size*, *Cross-list*, and *Largest Shareholder* as controls. For *ROA* and *ROE*, we also include the lagged value as a control variable. We use three alternative performance measures, *alpha*, *ROA*, and *ROE*. In Panel B, we report the results from 3SLS regressions that allow both variables, *Commitment to Shareholders* and *Commitment to CSR* to influence performance. The instrumental variables are those from Panel A. To preserve space, we only display the performance equation. The variables are described in Table I. Numbers in parentheses are robust *t*-statistics (Columns 1 to 3) and robust *z*-statistics (Columns 4 to 6).

<i>Panel A. Commitment to Shareholder Value and Performance</i>						
Independent Variables	OLS			Instrumental Variable (2SLS)		
	Dependent Variables			Dependent Variables		
	<i>Alpha</i>	<i>ROA</i>	<i>ROE</i>	<i>Alpha</i>	<i>ROA</i>	<i>ROE</i>
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Commitment to Shareholders</i>	0.003*** (2.69)	0.007 (1.63)	0.029** (2.21)			
<i>Commitment to Shareholders</i> (instrumented)				0.031*** (2.77)	0.124* (1.82)	1.081*** (3.42)
<i>Firm Size</i>	-0.001*** (-5.59)	-0.005*** (-2.74)	-0.004 (-0.93)	-0.002*** (-4.86)	-0.007*** (-2.96)	-0.020* (-1.85)
<i>Cross-list</i>	-0.002** (-2.06)	0.003 (0.80)	-0.001 (-0.07)	-0.002* (-1.78)	-0.0002 (-0.03)	-0.032 (-0.75)
<i>Largest Shareholder</i>	0.007*** (3.51)	0.007 (0.73)	0.007 (0.26)	0.005* (1.76)	0.005 (0.43)	-0.016 (-0.19)
<i>ROA</i> _{<i>t</i>-1} ; <i>ROE</i> _{<i>t</i>-1}		0.545*** (6.54)	0.039*** (4.12)		0.531*** (5.75)	0.026*** (3.52)
Constant	0.021*** (8.24)	0.074*** (3.55)	0.203*** (4.42)	0.012*** (2.80)	0.046* (1.78)	-0.114 (-0.88)
Number of observations	945	972	967	940	959	954
<i>F</i> -test	22.17***	31.13***	4.82***	10.50***	25.80***	8.13***
<i>R</i> ²	7.15%	43.20%	11.32%			
First-Stage (Probit) Regression: <i>Commitment to Shareholders</i> instrumented by <i>Anti-Self-Dealing</i> and <i>Dividend Yield</i> ; <i>Firm Size</i> , <i>Cross-list</i> , and <i>Largest Shareholder</i> are included as controls						
<i>Anti-Self-Dealing</i>				0.455*** (2.27)	0.431** (2.42)	0.446** (2.12)
<i>Dividend Yield</i>				5.874** (2.45)	5.295** (1.96)	5.798** (2.12)
LR chi-squared				19.78***	19.53***	23.59***
Pseudo <i>R</i> ²				1.48%	1.47%	1.78%
Wu-Hausman <i>F</i> -test				13.49***	8.24***	32.29***
Hansen <i>J</i> Statistic				1.08	1.36	1.54
Corrected 95% confidence set for <i>Commitment to Shareholders</i> , if instrument is potentially weak				[0.015, 0.084]	[0.053, 0.520]	[0.416, 1.712]

(Continued)

Table VII. Corporate Targets and Performance (Continued)

Independent Variables	Dependent Variables		
	<i>Alpha</i>	<i>ROA</i>	<i>ROE</i>
	(1)	(2)	(3)
<i>Commitment to Shareholders</i> (instrumented)	0.027*** (2.70)	0.152*** (3.19)	0.904*** (6.72)
<i>Commitment to CSR</i> (instrumented)	-0.005 (-0.84)	0.014 (0.47)	0.249** (1.96)
<i>Firm Size</i>	-0.002*** (-3.45)	-0.008*** (-3.85)	-0.032*** (-3.74)
<i>Cross-list</i>	-0.003** (-2.03)	-0.0002 (-0.04)	-0.015 (-0.47)
<i>Largest Shareholder</i>	0.005** (2.03)	0.005 (0.41)	-0.025 (-0.42)
ROA_{t-1}		0.524*** (16.73)	
ROE_{t-1}			0.017*** (2.78)
Constant	0.016*** (3.21)	0.037 (1.57)	-0.069 (-0.97)
Number of observations	940	959	954
Chi-squared value	52.69***	452.65***	50.93***

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

Karolyi, and Stulz (2004), companies that cross-list should be more willing to disclose their commitment to shareholder value.¹⁵

Both instruments have positive and significant coefficients in the probit regression with confidence 0.95 (see the bottom of Panel A in Table VII); moreover, the probit regression generally has an *F*-statistic that is significantly larger than zero with confidence 0.99. Consistent with our concerns, a formal Wu-Hausman test rejects exogeneity of the *Commitment to Shareholders* variable with confidence better than 0.95. The bottom of the panel also reports a Sargan-Hansen test of overidentifying restrictions, which examines the joint null hypothesis that the instruments are valid (i.e., uncorrelated with the error term) and that they are correctly excluded from the estimated equation. The test is unable to reject the null.

One should note that our first-stage regression has a limited fit. There are few potentially valid instruments we can think of. Their limited fit suggests, however, that we should treat the results in the table with a grain of salt.

We use the fitted probabilities of the first-stage probit regression to instrument the variable *Commitment to Shareholders* in the 2SLS regression. The results from this correction for potential endogeneity in the commitment to stockholders are in the upper part of Columns 4 to 6 in the

¹⁵In alternative specifications, we also use legal origin variables and a binary variable that identifies common law countries as instruments. This does not change our results.

panel. They suggest that shareholder friendliness does induce better performance. The coefficient of the variable *Commitment to Shareholders* is positive and significant with confidence of at least 0.90 in two-sided tests against zero for all performance measures; the confidence is 0.99 when performance is measured with *alpha* and *ROE*. Shareholder-friendly firms appear to do consciously more for their stock price. This evidence is consistent with Gompers, Ishii, and Metrick (2003), who find that firms with stronger shareholder rights have higher firm value.

To interpret the coefficient estimates, we must recall that *alpha* is a monthly figure, whereas *ROE* is an annual number. Moreover, we have to bear in mind that the instrumented variable *Commitment to Shareholders* is a predicted probability rather than a binary variable. The estimate of the coefficient associated with *alpha* suggests that an increase of 10% in the probability that a firm discloses its obligation to shareholders yields a monthly return 0.31 percentage points higher than normal. Similarly, its annual *ROE* is boosted by 10 percentage points. Even if numerically different, the message that these estimates convey is the same. Firms that express an obligation to shareholder value perform better.

B. Robustness Tests

As mentioned above, the limitation of these results is the fairly weak instruments. Thus, we replicate the analysis in Columns 4 to 6 using a regression approach that allows for potentially weak instruments, as suggested by Moreira (2003, 2009) and Andrews, Moreira, and Stock (2004, 2006). The regression coefficients of the *Commitment to Shareholders* variable are still positive and significant. The associated *p*-values for *alpha*, *ROA*, and *ROE* are 0.006, 0.025, and 0.001, respectively (not shown).

Another potential problem with our regression specifications is incidental truncation and the associated omitted variable problem (Greene, 2000). The regressions cover firms that disclose information about their targets. We have seen in Table II, however, that several firms (402 out of 1,686) choose not to say anything about their targets. These firms could be poor performers trying to keep a low profile. If so, we would have a selection bias. To get around this problem, we estimate a Heckman two-step selection model (not shown). The dependent variable in the selection equation is dichotomous and indicates whether the firm states goals on its website. The variables that determine sample selection are the anti-self-dealing index score of the company's country of incorporation as reported in Djankov et al. (2008), the company's dividend yield, the stake of its largest shareholder, firm size, and a binary variable that identifies firms that cross-list in the United States. We estimate the selection model with a probit regression. The fitted probabilities from this regression are used to compute the inverse Mills' ratios (IMR).

Following Wooldridge (2002), we then include the IMR in both the first- and the second-stage instrumental variable regressions. The resulting estimates for *Commitment to Shareholders* are of the same magnitude as those in Columns 4 to 6, although the significance level is generally a bit lower (the *p*-values for *alpha*, *ROA*, and *ROE* are 0.100, 0.178, and 0.012, respectively). The IMR, the variable that reveals the presence of a sample selection bias, however, is not significant in any of the three regression equations, suggesting that our specifications do not suffer from selection bias. Therefore, our conclusions stand. Firms willing to declare their obligation to shareholder value perform better.

In our regressions, commitment to shareholder value could proxy for other commitments; in particular, as suggested by the correlation observed in Table VI, for commitment to CSR. As a further robustness test, we replicate the analysis by including the commitment to CSR in our performance regression. Since that commitment could also be endogenous, we instrument it and perform a 3SLS estimation. The instruments we use are the country of incorporation's

distance from the equator and the ratio of stock market capitalization to GDP. Nouger and Siscart (2005) find that GDP per capita is positively related to the country's distance to the equator. Consequently, it could be that countries that are closer to the equator attach lower priority to CSR.¹⁶ The second instrument measures the importance of a country's stock exchange. If listed firms are more exposed to society's demands for CSR than unlisted firms are, we would expect this variable to correlate positively with the commitment to CSR. Our results indicate that both instruments have positive and significant coefficients when regressed on CSR (not shown). Moreover, a Wu-Hausman test rejects exogeneity of commitment to CSR, and the Sargan-Hansen test of overidentifying restrictions is zero at customary levels of statistical significance. As in the case of commitment to shareholders, the R^2 of the first-stage regression is low.

The results of our 3SLS regressions are shown in Panel B of Table VII. Consistent with our prior findings, commitment to shareholders maintains its positive and significant coefficients. In fact, the significance has gone up fairly substantially.

IV. A Control Sample

For an additional robustness test, we repeat the analysis with a control sample we compiled in 2004. The countries of interest were chosen on the basis of the legal protection given to shareholders according to La Porta et al. (1998). From the group of common law countries, we chose the United Kingdom and the United States. From the civil law countries, we selected Sweden from the Scandinavian legal family; Germany, Japan, and Switzerland from the German legal family; and France and Belgium from the French legal family. The resulting sample comprises firms from the top 100 companies in the largest stock market index of each country. For the United Kingdom, this is the FTSE 100; for the United States, the S&P 100; for Sweden, the OMX 100; for Germany, the DAX 100; for Japan, the TOPIX Core 30 and the 70 next most liquid stocks with the largest market capitalization; for Switzerland, the 100 largest firms in the SPI; for Belgium, the BEL 100; and for France, the CAC 40 supplemented by the 60 next largest firms. Not all of these firms have a website in English and, when they do, not all declare their targets. The result is a sample of 650 companies for which we could find target-related information. To limit the length of the paper, we do not report the analysis of this sample in separate tables.

CSR is the most frequently mentioned target across all countries. The preference for this target goes from a minimum of 25% among Swiss firms to 92% among the largest Japanese firms. Shareholder value and profitability are the next most popular goals. The preference for shareholder value varies from a minimum of 28% among German and Swiss firms to a maximum of 58% among UK companies. Profitability-related statements range from 27% for US firms to 53% for Swedish firms. The remaining targets of independence and stakeholder value are almost never mentioned, except for Japanese firms that make reference to stakeholder value in 23% of the cases.

These results are similar to those observed in our main sample of 2006. Since we deal with a conditional sample, the comparison is with the right-hand side of Table III. In both samples, less than a majority of all firms discloses a commitment to shareholder value (44% in 2004 and 45% in 2006). And, in both samples, CSR is the most popular goal (61% in 2004 and 57% in 2006).

With this control sample, we can examine the robustness of the correlation between commitment to shareholders and performance. Therefore, we reproduce the analysis in Columns 4 to 6 of

¹⁶Our tests reject per capita GDP as an instrument.

Panel A in Table VII. We instrument *Commitment to Shareholders* with the anti-self-dealing index reported in Djankov et al. (2008). We investigate the three performance measures, *alpha*, *ROA*, and *ROE* defined in Table I, except that *alpha* refers to 2000–2004, and *ROA* and *ROE* to 2004. Details of the measurement of the regression arguments are also in Table I. The estimates confirm that firms that declare an obligation to shareholders seem to perform significantly better. The same qualifications made for Table VII apply in this investigation. The fit of the first-stage regression is weak. Once again, however, the results do not change when using Moreira's (2003, 2009) approach to allow for potentially weak instruments.

We then replicate the analysis of Panel B in Table VII by including the *Commitment to CSR* in the performance equation. As before, the instruments used are the country of incorporation's distance to the equator and the ratio of stock market capitalization to GDP. Under the 3SLS regression, *Commitment to Shareholders* has significant coefficients regardless of performance measure. Here, too, the significance of those coefficients goes up fairly substantially as compared to what we found in the 2SLS regression.

Overall, the control sample leads us to the same conclusions as our main sample. Firms that disclose a commitment to shareholders seem to perform better. This does not imply that firms that do not disclose a similar commitment pursue different goals. Yet, the evidence is consistent with the claim that managers mean what they say.

V. Conclusions

Probably the best known corporate target is shareholder value. This paper analyzes whether welfare principles or economic logic compel managers to pursue that target, inquires as to whether managers commit to shareholders in their mission statements, and asks whether those who do commit achieve better stock price performance.

There seems to be a consensus among many finance academics that firms ought to maximize shareholder value. Under the proper assumptions, shareholder value maximization is indeed conducive to an efficient allocation of resources. Increased efficiency, however, is not necessarily the same as higher social welfare.

One could argue that, like it or not, managers are forced by competitive markets to seek the target of shareholder value maximization. We contend, however, that market forces do not unavoidably have that effect. Competition in the market for goods and services simply pressures firms to cover costs. And competitive capital markets merely arbitrage the difference between stock prices and intrinsic stock values, without necessarily inducing managers to strive for higher stock prices (e.g., according to Jensen, 2005, when stocks are overpriced). If anything, capital markets demand that managers respond to the requests of large current and potential shareholders. We also point out that, due to differences in investors' investment horizons and financial interests, shareholder value maximization is an ill-defined target to begin with (Miller, 1987).

Ultimately, however, what corporate goal managers seek is an empirical matter. Our investigation of corporate websites documents that shareholders are not even mentioned in many mission statements, an important managerial tool. It is puzzling that the agent does not at least verbally commit to the principal. A comparison of our website data with printed data and with the extant literature on minority protection gives us no reason to suspect bias.

Managers' reluctance to embrace shareholder value cannot be explained with political considerations as it would be easy to phrase a commitment to shareholders in politically acceptable ways. There are three nonexclusive explanations. First, managers and directors might truly believe that shareholders are not entitled to the largest piece of the corporate surplus. Second, shareholder

value is a target that is strictly not implementable. And third, managers may care only for large shareholders since they are the ones who can threaten their job security.

When we examine performance, we find that firms willing to openly admit a commitment to shareholders seem to perform relatively better, regardless of whether we measure their performance with abnormal stock price performance, ROA, or ROE. Causality seems to go from intentions to performance. As we mentioned, this does not necessarily mean that managers without a declared commitment to shareholder value pursue other goals. Yet, those who do commit appear to do better. This evidence, however, might suffer from weak instruments. We can validate it, however, with both a procedure designed for weak instruments and a control sample.

What does this all imply? Is there any other target that firms do or should pursue? For an answer, let us consider the first part of the question, namely, what other target, if any, firms seek. Since managers care about their jobs, power, and prestige, they have an incentive to accommodate the demands of large current and potential shareholders. Therefore, we believe that firms behave as if managers maximized their own utility subject to the demands of large shareholders.

As for the target firms should pursue, our answer is as follows. Because of differential investment horizons and conflicting financial interests among shareholders, shareholder value maximization is ill defined. If we had to decide, we would recommend that public corporations pursue a policy of long-term firm value maximization, as recommended by Jensen (2001). Even though that does not necessarily bring about the highest social welfare, it guarantees, under reasonable assumptions, an efficient allocation of scarce resources. How the rents of that policy are distributed is decided by markets, politics, and corporate governance. To implement a policy of long-term firm value, managers should ignore short-term stock market gyrations and focus on increasing the future value of their firm, preferably the one they can forecast, for example, in one year's time. ■

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