Corporate governance : Stakeholder value versus Shareholder value

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Abstract : Unsatisfied with the dominating shareholders' point of view, that appears to be too limited to build a relevant theory of corporate governance, we propose an enlarged definition of the value which may be called, the stakeholder value. This definition and its associated measure are more suitable for the stakeholder approach to the firm and more relevant to understand the value creation and sharing mechanisms.

Keywords: shareholder value, stakeholder value, corporate governance, value creation, value sharing.

Stating that value creation depends on the corporate governance (from now on CG) system seems evident, given the performance variations that exist between the firms of various nations and, more recently, between the small firms and the large listed firms. The mechanisms explaining this relationship are however far from being completely understood and an explanatory model seems particularly complex to design. It is possible that different systems, because of the balance between the mechanisms comprising the CG system, could finally lead to equivalent performances, making it ambiguous to emphasize precise diagrams of causality, according to the equifinality principle[1].

Constructing such a model implies first of all a definition of what is understood by value creation and CG system. Measures such as Economic Value Added (EVA) or Market Value Added (MVA)[2], which are mere adaptations of the Net Present Value, popularized for the past decade by certain consulting firms, such as Stern Stewart & Co or McKinsey, are based on the traditional assumption that all contributors to the factors of production – except for shareholders – are remunerated at their opportunity cost (generally supposed as equal to the factor price established on a competitive market). Since the shareholders, or exclusive residual claimants, are the only resource contributors to receive the rent created by the firm, the created value is but the measure of the rent they perceive. This representation of value – the shareholder value – directed towards the sole shareholders is, on the one hand, incomplete since the firm's decisions involve consequences for all stakeholders[3] (from now on SH), and the concept of created value must be adapted, according to the efficiency principle, to take the latter into account in it's entirety (Milgrom and Roberts, 1992). On the other hand, and above all, while focusing on the only shareholders and the methods they use to control

managers, this does not enable us, in our view, a proper identification of the mechanisms of value creation, in connection with some of the recent theoretical representations of the firm. In particular, it seems incompatible with the contractual representation, according to which the firm is a nexus of contracts between the different SH – shareholders, but also, creditors, employees, managers, customers, suppliers, public authorities, etc. –, or the one according to which, the firm constitutes a co-operative game between the different SH (Aoki, 1984).

Insofar as the concept of created value is not reducible to the sole transaction between the firm and the shareholders, the analysis of the value creation process, related to the CG system, is not limited to the mere relationship with shareholders and the study of the influence of their control on managers. This aspect, of core importance both to the literature on value creation and on CG, appears, on the one hand, to be of excessive importance due to the prevalence of the Anglo-Saxon model and presents an obvious ideological bias and, on the other hand, slows down the development of a more elaborate research on the link that unites the mechanisms of value creation and the CG systems. It also leads to a skewed understanding of the firm's operations and value creation in the European or Japanese models, based on a pluralist approach of the firm (Albert, 1991 ; Blair, 1995 ; Yoshimori, 1995) as opposed to the monist one of the Anglo-Saxon type, where only the shareholders interests are taken into account.

Shleifer and Vishny (1997) define the field of CG, as the study of the processes by which the resources suppliers – reduced to the only financial investors – guarantee the profitability of their investment. We prefer the definition according to which, the CG system covers all the mechanisms that govern the managers' behavior and delineate their discretionary latitude (Charreaux, 1997). This broader definition covers the

preceding one and presents the advantage of giving the manager the role of central actor (but non-single) in the value creation process.

The objective of this article is therefore to propose, first of all, a definition of the created value – the "stakeholder value" – and an associated measure, consistent with the pluralist view of the firm, considered as a nexus of contracts or as a center of various organizational games. Secondly, and in agreement with this expanded measurement of created value and the retained definition of the CG field, we will suggest some suitable elements for renewal of the understanding of the value creation process in connection with the CG system. We will insist, in particular, through created value distribution problems, on the implication of arrangements that govern the contribution of the various resources on the investment process. However, this interdependence between "financing" and investment will not be perceived exclusively, as in the majority of the recent developments in financial literature, through the contribution of the financial capital alone, but also while utilizing, in accordance with the stakeholder value measure, the other resource contributors, in particular, employees.

1. The pluralist view of the firm and stakeholder value

In the traditional financial approach, created value is equal to the rent received by the shareholders. In terms of rates, the rent corresponds to the portion they perceive beyond their opportunity cost represented by the cost of equity, which is usually estimated by the Capital Asset Pricing Model (CAPM) assuming a capital market efficiency. The financial creditors remuneration being equal to their opportunity cost – i.e. the cost of the risked debt on a debt market also presumed efficient –, the shareholders are the only residual claimants[4] and the preceding definition of value

creation is found in the well-known proposal according to which there is value creation if the economic return of the investments is higher than the weighted average cost of capital, proposal which underlies the criteria of NPV and EVA.

The measure that we propose – the stakeholder value – is based on a total measure of the rent created by the firm in relation to the different SH and not the only shareholders[5]. It rests on the same logic as the measure constructed by Brandenburger and Stuart (1996)[6]. These two authors first based their reasoning on the analysis of the value chain suggested by Porter (1984) and then, placed their reasoning within the framework of the co-operative game theory, in particular to analyze the appropriation of the created value. First of all, we will present this expanded measure of the value before examining the consequences induced in the interpretation of the organizational game.

1.1. The measure of the stakeholder value

To simply introduce the stakeholder value measure, and following the example of Brandenburger and Stuart, let us consider the simplest value chain, namely a firm with only one supplier and one customer. From the supplier's viewpoint, the created value is equal to the difference between the price paid by the firm (explicit cost) and the opportunity cost, i.e. the minimum price required by the supplier to undertake or continue the transaction. This same analysis can be transposed on the customer’s side. There is a value created if the customer obtains the product at a price lower than his “opportunity price”, i.e. the price which he would have been ready to pay. On the overall value chain, the created value is equal to the difference between the opportunity price for the customer and the opportunity cost for the supplier.

Let us illustrate this reasoning with an example. Let us assume that the supplier wishes to contract with the firm for a minimum price of 100, equal to his opportunity cost, and that, because of the asymmetry of information or of a power report favorable to the supplier, the transaction was concluded after negotiation at the cost of 200, representing the explicit cost for the firm. From the customer's standpoint, a negotiation led the firm to agree to a price of 900 whereas the customer was willing to pay a maximum price of 1 000.

Created value is equal to : opportunity price - opportunity cost = 1 000 - 100 = 900.

The distribution of this value is as follows :

- customer : 1 000 - 900 = 100

- supplier : 200 - 100 = 100
- firm : 900 - 200 = 700

The share of the firm is equal to the perceived price less the explicit cost of the resources. The final distribution depends on the respective capacities for negotiation of the firm (supposing the manager is the sole owner), of the customer and the supplier and of their respective perceptions of the opportunity prices and costs.

The generalization of this approach for all customers and the different resource contributors (employees, managers, shareholders…) leads to measuring the created value by the difference between the sales evaluated at opportunity prices and the sum of the opportunity costs for the various resource suppliers.

In order to better clarify this point, let us consider a more realistic example, using the principal categories of SH, and ignoring the State for simplification purposes[7] :

- customers : sales at opportunity prices 1 000 ; sales at explicit prices 900 ;
- suppliers of goods and services : purchases at opportunity costs 180 ; purchases at explicit costs 200 ;
- labour remuneration (except manager) : opportunity cost 250 ; explicit cost 300 ;
- financial creditors remuneration : opportunity cost 90 ; explicit cost 100 ;
- shareholders remuneration : opportunity cost 60 (required return) ; explicit cost 70 ;
- manager’s remuneration : opportunity cost 20 ; explicit cost (wages) 30.

Stakeholder created value[8] = sales (at opportunity prices) – sum of opportunity costs

400 = 1000 - (180 + 250 + 90 + 60 + 20) = 1000 - 600

The created value, equal to 400, is distributed in as follows :

- customers : 100 ;
- suppliers of goods and services : 20
- employees : 50
- financial creditors : 10
- shareholders : 10
- managers : 10
- non affected residue available to the "firm" : 200

The non affected residue can be interpreted as the "managerial slack", i.e. the surplus representing the manager's latitude in his negotiations with the different SH ; this slack, not divided between the different SH, is reinvested (in particular as replacement investments[9]) or is retained in the form of liquid assets.

Let us specify that the opportunity cost (or price) can be measured either during the introduction of the transaction or once it has been established[10]. In the first case, it is necessary to retain either the maximum price, including the costs of entry, which the customer is willing to pay, or the minimum price the supplier is ready to accept to make a deal with the firm. In the second case, it is necessary to retain the exit costs of the transaction. A firm, by increasing the dependence of its employees by developing their specific human capital, thus increasing their exit cost, can lower their opportunity cost

and increase value. This source of value can however induce unwanted effects if it challenges the employees' incentives to improve productivity or quality. Opportunity cost evolves, in particular for those employees who, by increasing their non specific human capital by experience, raise their opportunity cost, leading to a drop in the created value if there is no corresponding rise in the opportunity price or productivity gains.

1.2. Stakeholder value and organizational game

The above presentation of the stakeholder value, in accordance with the definition of the rent[11] (or the quasi-rent), makes it possible to emphasize certain characteristics of the organizational game :

- The manager creates value if the difference between the sales at the opportunity prices and the opportunity costs is positive. In this sense, to increase value creation, the manager must act simultaneously on opportunity prices and costs. The level of the opportunity price depends, in particular, on the scarcity of goods and services offered by the firm and on the customers' dependence with regard to the latter. A strong innovation is often an important source of value creation, all things otherwise being equal. In a symmetrical manner, value creation can also go through a lowering of the opportunity cost, for example, when a smaller compensation is required by financial creditors because of a weaker risk or of a partnership agreement with the suppliers which reduces the risk of opportunism.
- With the conditions underlying the Coase theorem not being satisfactory, value creation is not independent of distribution, in particular, because of influence costs,

related to the activities of rent appropriation (Milgrom and Roberts, 1990). However, conflicts on value sharing do not necessarily have negative consequences on value creation. It is frequent that a distribution favorable to employees, in the form of an explicit compensation higher than the opportunity cost, corresponding to efficiency wages, induces a better performance, resulting for example in an improvement of the product quality or productivity gains. In the same manner, the manager is so encouraged to increase the created value, – for example, by developing his specific competencies – that he is one of the principal residual claimants, in particular, if his remuneration is indexed on the created value or if he also perceives part of this value while being associated with the equity capital.

• This interpretation of value creation leads to distinguishing two situations relating to threats to firm perenniality :

– there is a value destruction ; in other words, the sales at opportunity prices no longer cover opportunity costs and the organizational coalition collapses ; this collapse is not necessarily immediate if the slack accumulated by the firm is extensive ;

– the firm globally creates value, but the distribution is made in such a manner that one of the SH receives an explicit remuneration lower than his opportunity remuneration. This most frequent situation corresponds, for example, to a case where the shareholders receive a lower remuneration than the market equilibrium rate of return (taking into account the risk). In this case, they can either intervene to force the manager to modify the distribution, or leave the coalition by selling their shares.

In fact, the different SH reactions towards a remuneration lower than their own opportunity cost (or towards an explicit price higher than their opportunity price) depends on their arbitration, according to the distinction established by Hirschman

(1970), between the immediate "exit" and the possibility of re-establishing the situation by "voice". A temporary remuneration sacrifice can be compensated by a sharing of a more favorable created value, once the situation is back to normal. In this sense, the different SH incentives vary according to their status. A customer, who holds shares of the firm, can temporarily accept an excessive price, if his expectations for recovery are promising and if he is interested in created value sharing after recovery. The cost of the SH intervention, by exit or voice, is a function of the CG system.

• The different SH are in very unequal situations :

– their positions in the value sharing depend naturally on their contributions to value creation. The contribution of a new SH (for example a new customer) is equal to the total created value after the transaction is set up, minus the value observed before the transaction. A priori, a SH cannot appropriate more than the value of his contribution to the creation, without provoking unfavorable reactions from the other partners who would consider themselves as being despoiled. Such a conclusion, however, can be contested since the manager may have an interest in operating value transfers between SH, the coalition subsisting if the disadvantaged SH compared to the former situation, maintains a surplus with regard to their opportunity cost. Thus, an increase in the dividend intended to satisfy new shareholders can be detrimental to employees who will capture a less significant portion of the rent ;

– the power position in value sharing depends, on the one hand, on the state of the various markets, in particular the possibilities to exit and on the other hand, on the voice capacity of the different SH, in particular according to the legal rights which are guaranteed to them. There is a direct connection between the CG system and the

behaviors of the SH, insofar as the system determines the possibilities of exit and voice as well as their respective costs ;

– the status of exclusive residual claimant of the shareholders is called into question from the stakeholder value perspective. In fact, the right of residual claimant of the shareholders defined by the law is exerted on the accounting profit, i.e. on the sales (at the explicit price) less explicit costs (except the return on equity), in other words, after the main decisions concerning the created value sharing are made. The possibilities of manager's actions on value sharing can be important, in particular in a firm that creates a high stakeholder value ; he may prefer binding the customers with a reasonable price, guaranteeing a regular supply with a pricing policy favorable to the suppliers or, attract his employees with a generous wage policy, rather than allot created value to the shareholders, whose role, in the process of value creation, can be considered as minor for most of the firms since financial capital does not provide any core competence[12]. This argument justifies that in the long run it is sufficient for the manager to guarantee the shareholders opportunity remuneration to prolong the relation. Moreover, even by limiting the sharing to the accounting profit, the portion of the shareholders' residual claim is reduced significantly because of the relatively discretionary practice in fixing depreciation and allowances plans and of the favorable treatment of reinvestment (from the legal and fiscal point of view).

- The stakeholder value approach also implies revisiting the existing link between capital structure and investment :

– First, to analyze the problem, it is necessary to replace the concept of financial structure by that of resources structure which covers in particular, the human capital. This expanded view complicates the arbitration leading to the minimization of the

opportunity costs of resources, in particular considering the imperfections of the human capital markets and the dependence of certain opportunity costs with regard to the process of value creation. For example, employees can be willing to temporarily accept remunerations lower than their opportunity cost at the time of their entry in the firm if the training that they receive valorizes their non specific human capital;

– Second, the maximization of created value does not pass exclusively by the minimization of the opportunity cost (separation property) if the opportunity price - i.e. generated operating cash flows - depends on the nature of the resources structure. Insofar as the opportunity price depends on the core competencies, a firm can have an interest in increasing the opportunity cost of certain resources if this increase leads in fine to a rise of the created value, thus allowing a better valorization of the organizational capital;

– Third, the questioning of the status of the exclusive residual claimant of the shareholders results in a dispute of the traditional interpretation that is made from the investment policy in the light of the options theory : as residual claimants, shareholders would have an interest in their investments undertaken being highly risky. If the supplement of created value in the event of favorable economic situation is allocated mainly to the other SH, in particular to the managers and to the employees, this conclusion is erroneous. The stakeholder view of value, associated with the abandonment of the separation of value creation and distribution decisions, leads to a fundamental questioning of the analysis of the value creation process and of traditional financial theory.

2. The influence of the corporate governance system on value creation : some considerations

The process of value creation being constrained by the CG system, it is now appropriate, according to the stakeholder value measure, to examine how this system conditions this process, by successively analyzing the transactions with the different SH. It seems apparent that the CG system, more or less constraining in the definition of the discretionary space of the managers, has a variable influence on the governance of the various transactions and the various links of value creation.

2.1. Value creation and governance of the transactions with the shareholders

The traditional approach of CG, centered on the shareholder-manager relationship, finds its theoretical justification in a simplified representation of the firm according to which the shareholders are the exclusive owners of the firm - they are supposed to hold all the rights to residual decisions and distribute all of the residual flows[13] - and for which, the property being separated from management, there is a single agency relationship (shareholders/managers). Within this logic, the problem is to encourage managers to generate the maximum rent that justifies all the attention brought to it, as much in the literature, as in that of the evolution of legislation, with the aspects concerning the shareholding structure, the form and the exercise of the voting rights, the shape, the composition and the role of board of directors, the takeover market, etc. On the one hand, this representation that attaches an excessive importance to the shareholder/manager relationship can be disputed. On the other hand, this particular relationship must be replaced within a more general framework of the analysis of the pluralist firm.

2.1.1. The disputed importance of the shareholder/manager relationship

The importance attributed to the shareholder/manager relationship can appear exaggerated as seen in several arguments :

• The unrealistic character of the representation of the firm. On the one hand, the ownership/management separation relates to only a limited number of firms (including in the United States) ; on the other hand, ownership of the firm appears strongly divided, the majority of the different SH (in particular managers and employees) can claim possession of substantial fractions of ownership since they take the essentials from the residual decisions and undergo the consequences of those on their capital (human or financial).

• The analysis of the value creation process obviously shows that stockholders' equity probably plays a weak role. This conclusion, which may be surprising, is consolidated by the fact that, in the majority of modern economies, financing by increased equity plays a small part. This proposal was almost always verified in the non-Anglo Saxon nations ; thus, in France, despite the numerous measures taken in favor of the development of the stock exchange market, the issue of equity financed, on average, less than 10% of the investment of the French companies over the period 1978-1993. In addition, in the United States, over the period 1985-1989, the “issued” shares were in fact repurchased shares (- 10,5% of the sources of financing). This reduced role of external equity is explained moreover by the recent financial research developments, in particular by the Pecking Order Theory (Myers and Majluf, 1984). Because of the asymmetry of information between the firm and the shareholders and of the method of remuneration of equity, this type of financing is particularly expensive, which,

moreover, justifies financial arrangements of the holding type or LBO, implemented to save equity.

- This attention finds its origin in the roles traditionally reserved for the stockholders' equity, assumption of residual risk or minimization of control costs, allowed by the exclusive attribution of the control rights to shareholders who are supposed to be efficient controllers. These two arguments however are specious :

– on the one hand, it seems that residual risk is assumed as much by employees or creditors, even suppliers, customers or public authorities, even if their sensitivity of exposure to risk appears different. Thus, when created value increases, employees and managers frequently appropriate a share of the created value supplement superior to that allocated to shareholders ; in return, in the event of unfavorable economic situation, the opportunity cost represents a loss barrier for the other SH, the unfavorable value sharing often being done first, to the detriment of shareholders, because of their legal status of residual claimants. Shareholders often appear in a position more fragile than that of the other contributors of capital for, a major component of their effective remuneration is made in an indirect manner by the growth of share prices. If an employee receives wages as explicit remuneration, normally higher than their opportunity costs, it is different for the shareholders. The distributed dividend is often lower than the opportunity cost, and a satisfactory explicit remuneration implies the realization of a stock appreciation associated with the price growth, which will be completely acquired only at the time of the share resale. For the shareholder, explicit remuneration, highly uncertain, retains a virtual character for a very long time ;

– on the other hand, shareholders, in particular when they are dispersed, are not always in the best place to exercise, at a lower cost, the function of monitoring the

managers, because they do not have an access to internal information, in direct connection with the value creation process.

2.1.2. The shareholder/manager relationship within the framework of the pluralist firm

The traditional analysis framework being poorly suited for the analysis of the incidence of the shareholder/manager relationship on the creation and sharing of the created value, it is necessary to reconsider this relationship within an extended framework, which takes into account the specificities of the different SH and the stakeholder value concept.

The specificity of the shareholders contribution seems to lie in the mobility of stocks (related in particular to their divisibility and liquidity) authorized by the existence of a secondary stock market and which does not exist for the "claims" held by the other SH (except for the bondholders). Thus, a precise analysis of ownership distribution (the residual decision rights and the residual benefits rights) reveals that the components of the ownership held by the SH, other than the shareholders, are in the majority nontransferable. For example, an employee, who perceives a share of the created value according to his specific contribution, is unable to mobilize this value on a market. This possibility of transferring his claims without loss, which constitutes the best protection of the invested capital, explains in particular the small shareholders' weak incentive to exercise their right to vote.

The mobility of the capital, related to the dispersion of shareholdings, however has an ambiguous influence on value creation and sharing. Due to the fact that this protection, which makes the "voice" less advantageous, and the unwanted effects

associated with collective action, the small shareholders may find it beneficial to be passive i.e. with little intervention in the rent sharing. The manager is therefore encouraged to support the other SH, most especially because of the resources that they provide, less easily reproducible than financial capital, playing a more important role in the value creation process.

Thus, while their method of remuneration is highly uncertain, the shareholders also appear in a precarious position because of the weak part they play in value creation. This situation encourages managers to make them profit slightly from the value sharing in the event of a favorable economic situation and, conversely, in a case of an unfavorable economic situation to make them support the major share of value destruction. The protection offered by the mobility of the capital is effective only ex ante ; ex post and in an unfavorable economic situation, it only results in "carrying out" depreciation. From this point of view, insofar as we consider them essential to increase external equity financing[14] and to develop popular capitalism, the measures designed to reinforce the rights of small shareholders seem necessary, in particular in nations where these rights seem most precarious, for example France, according to La Porta and al. (1998). Beyond legal protections, the profit-sharing systems for managers, depending on the value allotted to shareholders, can contribute to attenuation of the conflicts of interest. However, the shareholdings being dispersed, the manager, if he was otherwise able to appropriate a substantial share of the created value, in the form of wages, of bonus or of perquisites, would prefer supporting the SH other than the small shareholders.

The situation appears different in the presence of a dominant shareholder (or of a coalition of shareholders) having the capacity to replace the managers. The manager,

even if he controls the information transmitted to the dominant shareholder, runs a greater risk of eviction. If the created value drops substantially, he may find it very beneficial to reduce the share assigned to other SH and to maintain that of the dominant shareholder so that he may obtain at least the normal market return. In this scenario, it is not the shareholders who assume most of the residual risks ; but the other SH - in particular employees, strongly penalized by the costs of exit - who are not in a position to fire the manager.

This result is however too moderate according to the manager's latitude regarding created value sharing as well as capacity of negotiation with the different SH and their respective contributions to value creation. If the created value increases, the dominant shareholder is confronted with a problem identical to the one encountered in the case of dispersed shareholdings, namely, to obtain a substantial share of the created value whereas it is in the best interest of the manager to support a value sharing advantageous for the determining SH in the value creation process. In this respect, the solution of profit-sharing for managers, with the same previous reserves, remains an interesting solution, even if it can be counter-effective, while leading, by an inadequate sharing, to the support of an increase in the shareholder value to the detriment of the stakeholder value. Such a policy is probably short-termist since a value sharing favorable to shareholders, coming from detrimental transfers to other SH, can be only provisional and counter-incentive. The short-termism risk, often referred to (Demirag, 1995, for an overview), therefore finds its justification if the financial market is insufficiently efficient to know if the increase of the shareholders wealth comes from a favorable sharing or from an increase in the stakeholder value.

This risk is increased by the mobility of the financial capital. An important shareholder can have an interest in forcing the manager to operate a created value sharing favorable to him, to make the stock price increase, then to resell his stocks before the detrimental consequences of this policy occur. The pressure exerted on managers by irruption in the financial capital of investment funds, seeking to obtain a value sharing more favorable to shareholders[15], can thus harm the growth of the stakeholder value. Such a possibility can occur for example through a policy for assets sales or for downsizing. However, only the effective knowledge of the stakeholder created value and of its sharing can allow for corroboration of such an assumption[16] that supposes, moreover, a strong inefficiency of the financial market[17].

2.2. Value creation and governance of the transactions with the managers

Given that the definition of the CG systems is centered on the concept of discretionary latitude of the managers and on the plausible assumption according to which the manager plays a central part in the value creation and sharing processes, the analysis of the manager's position deserves detailed attention. By assuming the existence of a transaction between the manager and the firm, we reconsider the hypothesis of Williamson (1985) according to which, the firm, is an entity, a "moral person", to be distinguished from its managers.

Up to what point, does the governance of that particular transaction associated with the managerial capital, influence value creation and sharing ? The rationality principle implies that the manager seeks to maximize his wealth, the managerial capital, and not the firm stakeholder value, - i.e. his value on the market for managers - a priori

constitutes a substantial part. The compromise, between the various components of his wealth, determines his attitude with respect to the appropriation of managerial slack.

From a dynamic point of view, the manager seldom finds it beneficial to appropriate the total slack, an important component of his discretionary latitude. In particular, it is the reinvestment of this slack that would allow eventual growth of the remunerations of other SH in order to reinforce the solidity and productivity of the organizational coalition and, thus, consolidating his position. A value sharing which explicitly appears too favorable to the manager, and in total disconnection with the evolution of shareholders or employees remunerations, could, moreover, cause important conflicts and lead to a decrease in the stakeholder value, for example, by a discouragement of employees incentives. In this sense, alignment with only the interests of the shareholders is not the only concern. For this reason, regulating mechanisms (that come under the CG system) constituted by taxation progressiveness and press campaigns, that underline the “abusive” character of certain remunerations, can be justified from the point of view of global efficiency while making it possible to reduce conflicts within the organization. This same concern justifies the secrecy characterizing the managers remunerations that reduces influence costs.

If we agree that it is in the manager’s interest to align the evolution of the value share that he appropriates from that of the main stakeholders[18] (shareholders and employees), his decisions must be directed towards the maximization of the stakeholder value. Consensual CG systems, such as those, for example, of the Japanese firms (even French firms where managers remunerations remain “moderate”) that tend to respect this principle are probably more efficient.

The maximization objective of the stakeholder value is justified in particular by the following arguments :

– the manager therefore increases his managerial latitude in particular by increasing his possibilities for negotiation with the various stakeholders. A priori, he may find it beneficial to favor the most influential SH in value creation ;

– he increases his managerial value, assuming it is a function of the accomplished performance, on the market for human capital ;

– he can grant himself remuneration much higher than his opportunity cost if the latter is overestimated by shareholders ;

– insofar as he has an important latitude in the distribution, in connection, for instance, with a strong creation of stakeholder value, he can more easily entrench himself by first allotting the created value to employees (or to the other resources suppliers) who support his policy. However, this entrenchment does not necessarily pass through an increase in created value ; it can also take the form of a redistribution favorable to the most hostile SH.

The traditional literature insists on the insufficient control of the managers that would involve a wasting of shareholders wealth. This vision of the CG problem is probably erroneous. The growth of the stock exchange capitalization in the main developed countries (in particular in France) leads to conclude that shareholders are remunerated way beyond their opportunity cost, and that, consequently, the CG system functions correctly for them, even if certain abuse, in particular when the capital is dispersed, exists. Apparently, managers are not immutable, the various studies carried out in the main developed countries (Pigé, 1997) reveal relatively high rates of rotation – the average duration is less than ten years – and a link, however small, between the

stock exchange performance and this rotation. While the mechanisms allow for discipline of the managers from the shareholders point of view are apparently more constraining in the Anglo-Saxon countries, in particular through the takeover market and the role of institutional investors, we meet the same rotation intensity in the other nations. This result leads to a conclusion that substitution mechanisms play a similar role in the structures of non Anglo-Saxon economies, in particular because of the concentration of shareholding (via for example the holding structures) or of the role of the banks.

The problem, stated in a voluntarily provocative manner, seems to us to be that of the managerial capital protection. The CG system analysis must, in particular, relate to the mechanisms intended to safeguard and develop this capital by an adequate appropriation of the managerial rent. As Williamson (1985) underlines, if the board of directors is generally presented as a body intended to safeguard the shareholders interests, it can also be justified as a safeguarding mechanism of the managers human capital (even of other categories of SH), which can explain the presence of the latter within the board of directors and the dominant role that they have.

In the same manner, the managerial capital market, often considered for its disciplinary role, also assures, from the mobility it allows, a function of safeguarding this same capital. This last role probably prevails on that of control, for this market generally lacks transparency and, contrary to the financial market, does not lead to the fixation of a price for managerial capital which would facilitate the discipline of the managers[19]. The protection of the manager also goes through devices such as “golden parachutes” or the superposition of the status of manager with that of employee. The most effective protection is however, in particular as Shleifer and Vishny (1989)

underline, related to the implemented strategies, by investments in specific assets that can induce substantial losses for the shareholders in case of dismissal.

The view of the shareholder value emphasized another method of entrenchment, that consists of the managers undertaking short term policies ending in a sharing of favorable value to the shareholders, even if the latter is carried out to the detriment of the other SH, in particular of those that play a determining role in the value creation process. The problem, from the point of view of global economic efficiency, is then not so much to discipline the managers so that they act in the shareholders interest, but to protect them from pressures that are too great, leading to a short-termist management. The mobility of financial capital, if it can protect shareholders, imposes as a counterpart a discipline that can be counterproductive to managers. This risk exists all the more since the most easily measurable performance criterion is that of the shareholder value. However, if the firm is described as a “multiple principals/single agent-manager”, the agent has an obvious interest to exert his efforts towards the objective favored by the principal most capable to control his performance and to fire him.

However, it is not a matter of concluding the efficiency of the system where the managers are exonerated from any obligation of performance, but rather we claim that a CG system offering a relative protection[20] to them would be more efficient on account of the higher discretionary latitude offered. Such a system, which could help make profitable the investments in human capital specific to the firm, supposes that the managers are judged not only on the rate of return on equity, but also according to the created stakeholder value and the criteria that allow, at least indirectly, for analysis of the link between this value and the investment policy. In this sense, one should observe, on the long term, a better performance according to the “stakeholder” measure, but also

with regard to the "shareholder", for the firms that favor strategic and subjective criteria or simple market share criteria, (preferably with the financial criteria based on the only return on equity) in the evaluation of performance. This conclusion, a priori, seems to be corroborated by the long-term performance of the Japanese economy, where the firms favor the market share objective (Abbeglen and Stalk, 1985), but also the German and French economies where the managers apparently seem less subjected to the constraint of short term financial result. This point of view conforms in particular to those of Porter (1992) and Thurow (1992) with regard to their respective criticisms of the American system.

Such a conclusion however may not be consolidated[21] only by the emphasizing the links between the indicators of stakeholder value creation and explanatory variables such as the managers discretionary latitude and the shareholders disciplinary power. It can be also tested from the firms behavior study in the event of crisis : the short-termism assumption implies a sacrifice of the R&D investments most profitable to value creation and downsizing[22].

One of the conclusions that can also be drawn from the preceding argument is that an active manager's market, based on the realized financial performance could oppose global efficiency by accentuating the risk of short-termism. In parallel, one can find arguments to defend the managers markets, which consider the social networks to be more important than the financial performance, insofar as this kind of system, by relatively protecting the managers, reduces the managers short-termist incentive. Such an argument can even justify the results of some French empirical studies (Pigé, 1996) that do not identify any significant link between financial performance and managers careers ; the conclusions of these studies contradict the frequent criticisms addressed to

the method of selection of French firm's managers (Bauer and Bertin-Mourot, 1995). One can suppose besides that the strong interconnection between managers within certain social networks, that represent social capital, can be a source of competitive advantages.

2.3. Value creation and governance of the transactions with employees

A firm can create sustainable value only if it disposes of a competitive advantage not easily imitated by its competitors. Such an advantage is based on the resources (Barney, 1991) that the firm procures and on the combination that results. The components that are most difficult to reproduce are associated with the human capital and organizational arrangements, which allow for efficient implementation of co-operation and organizational training within the firm. As Coff (1997) notes, employees are assets difficult to duplicate or to transfer because of their specificity, of their imbrications within the social systems, internal or external to the firm, and of the ambiguous causality (in the sense that it is difficult to be precisely established) that link them to performance. These last two elements also create managerial dilemmas (Coff, 1997) – the same dilemmas exist within the agency relationship linking shareholders to managers – insofar as the external social networks, to which employees have access, enable them to more easily leave the firm and where the difficulty of identifying the performance sources, due in particular to the asymmetry of information, is an important source of moral hazard.

The agency relationship existing between firm and employees induces two problems. On the one hand, employees must be capable of preserving and increasing their human capital. On the other hand, the firm must maintain its competitive

advantage as well as the value of the specific human capital that it contributed to the creation. Various mechanisms allow for an alignment between the interests of the employees and the firm, in particular, profit, and decision sharing systems and strong organizational cultures. The various studies undertaken in France generally show a limited positive effect of profit sharing on productivity or profitability (Artus and al., 1989 ; Vaughan-Whitehead, 1992). A majority of these empirical tests however deal with the connection between profit sharing and financial profitability (for shareholders), thus failing to emphasize the link with the stakeholder value creation.

The study of this relation and of the associated CG systems is to be replaced within the framework of the stakeholder value creation and sharing on the long term. It does not seem that the national legislation that allows a better safeguard of employees interests, in particular by associating them with the monitoring mechanisms, has led to lower economic performances. Some empirical studies (Hubler and Schmidt, 1996), that display a negative reaction of stock prices at the announcement of downsizing and positive to that of social conflicts, appears to confirm the positive role of employees in value creation (shareholder value in this case).

A further analysis of this CG system management component would go through a study, on an international level, of the incidence of flexibility on the stakeholder value creation. According to the preceding argument, one should discover an opposite link between the stakeholder value creation and flexibility, in particular in the sectors with strong specific human capital. On the contrary, a too great rigidity in the human resources management could involve a decrease in value creation by reducing the managerial latitude in value sharing. From the efficiency point of view, it would be necessary to specify the conditions of an optimal compromise between the loss of

created value based on the flexibility of the staff policy and the possible profit due to the latitude increase in value sharing between the different SH.

In addition, searching for simple correlations remains a poor answer in understanding the link between the management of the firm/employees relationship and value creation. If, as it is probable, the main factor of value creation is associated with the human capital investment, in particular through training –d'Arcimoles (1995) discovers a positive correlation between the training effort and performance – and the increase of organizational capital, it is necessary to further the mechanisms analysis, in particular the informal ones, which facilitate this investment or, conversely, which slow down it.

2.4. Value creation and governance of transactions with financial creditors

As we underlined, external equity represents a small share of corporate financing which is mainly based on internal funds and on debt. The nature of the latter varies significantly according to financial systems, considering two criteria : nature (market financing or intermediate financing) and maturity. This characterization could be complicated by specifying that in some countries, in particular the Latin countries, there exist important substitution effects between the short term banking debt and commercial credit which significantly influences the management of the agency relationship between financial creditors and the firm.

In the most widespread case, financial creditors relatively seldom take part in the created value sharing, except if they are also shareholders or if they hold hybrid financial assets such as convertible obligations. The remuneration that they receive is most often very close to their opportunity cost if their service consists only in providing

funds. Strong competition on the capital markets implies that the standard bond issues are generally made at the opportunity cost. The situation appears different in the presence of intermediate financing, even if competition is important, if the loan relationship is accompanied by counseling of the firm, a share in equity capital, or a director seat in the board of directors. Such a policy can however involve important risks as the example of the Crédit Lyonnais illustrated; substantial share of its losses can be charged to the bank-industry policy implemented.

The financial creditors not being interested (or very slightly) in the created value sharing, their principal concern is to ensure that created value is enough to guarantee the recovery of the amounts lent out and their remuneration. The normative financial literature (Diamond, 1984) tends to show that the debt relation management is more effective when it is intermediate, however this efficiency remains to be evaluated considering the legal framework that regulates the procedures in the event of failure. Thus, in a comparative study, Kaiser (1996) concludes that the French legislation, particularly anxious to preserve the firm's durability, leads to an important spoliation of creditors, in particular of the banks, and ends paradoxically in a low rate of recovery. This situation in particular causes unwanted effects ; it slows down the development of bank loans to small firms for which informational asymmetry is often stronger, and to limit more forcefully managers discretionary space. A more important risk, in the event of failure, justifies that banks exert a more rigorous ex ante control on the nature of financed investments and systematically look for guarantees, two measures which can slow down value creation. This behavior of the banks may explain the important recourse of the French firms (and more generally Latin) to commercial credit. This kind of credit, very often vilified (at least in France), allows a firm to, at least partially,

escape bank rigidity and is less prone to information asymmetry since the creditor necessarily knows that this credit accompanies a commercial transaction ; moreover, it can be a factor of value creation, by increasing opportunity price for the customer.

The influence of debt type and of debt management systems would also deserve a comparative international study in order to better understand their incidence on value creation and sharing. In particular, up to what point do they condition the nature of the investment and the human capital management? We can assume that a raise in fixed overhead, linked to the debt, is supposed to cause a slowdown of human capital development and more generally of organizational capital (Cornell and Shapiro, 1987), compared to a pure internal financing policy, even if the latter presents the disadvantage of making the firm's development depend on its position in the business cycle. Thus, over the period 1978-1989, Bond and al. (1997) show that the English firms investments were more sensitive to the level of the cash flow than those of continental Europe firms. The banking debt appears however preferable to external equity financing since, while allowing the managers to escape the discipline from the shareholders, it implies a lesser risk of short-termism

Furthering this analysis on the role of debt in value creation results in seriously disputing the theory of free cash flow (Jensen, 1986), according to which the obligation given to the managers to 'disgorge' the 'free' cash flow (exceeding the positive net present value investments), to face the debt service, would imply less waste of wealth. The analysis of stakeholder value creation leads us, on the contrary, to conclude that debt discipline, by implying less latitude in value sharing, encourages managers to under-invest in human capital – the unfavorable distribution of the created rent harming the growth of specific human capital – and consequently induces an inferior value

creation, even if this conclusion seems to be moderate according to the firm's position in the business cycle.

2.5. Value creation and governance of commercial transactions

The initial analysis of value chain shows that beyond the financial and human capital suppliers, a significant part of value creation and sharing is linked to the relationships that the firm maintains with the goods and services suppliers, as well as with the customers.

In regard to customers – this analysis is reversible with respect to suppliers –, the firm increases all the more it's created value as customers have few alternatives. This situation can have several origins. The firm can be in favorable position for various reasons, economic reasons related for example to the innovative character of its products or services, or to the possible partnership agreements implemented with the customers and that increases costs of exiting the relationship or, finally, to some legal reasons obliging customers to buy from the firm, for example, because the State imposes their choice of supplier. Customers, if they can negotiate freely, will tend all the more to continue the relationship if the explicit price charged is lower than their opportunity price, so that they appropriate a substantial share of the rent. This appropriation may allow for the establishment of a long-term partnership favorable to value creation. In this respect, the firm/customer relationship presents a similar character to the one which governs the relationship between the employee and the firm ; however, it is different insofar as the capital engaged in the relationship is not the same and it lies within a commercial framework and not within a hierarchical one.

In a broad sense, the environment of the firm/customer relationship also belongs to the CG system. There are conflicts of interests (or rather a total non-convergence) between the two parties and the mechanisms charged with governing these conflicts constrains the manager's discretionary space. The acquisition of shareholdings, crossed or not, accompanied or not by a seat in the board of directors (or an exchange of directors), constitutes beyond the trade agreements or the partnership, a particular method of governance in this kind of relationship. This frequent situation allows, by better access to information, to better control value creation and sharing. In this context, the analysis of the relationship of shareholder/firm cannot be done independently of the trade or industrial relationship, but this kind of relationship, in the traditional approaches is never analyzed as such ; the shareholders role (except for the banks) is perceived as being limited to the supply of financial capital. This assumption is particularly disputable within the current state of capitalism, the development of which is based on an important increase in alliances and partnerships, in particular in the French context where the cross-shareholdings, implemented for cooperative reasons, are widespread. The same argumentation applies in the Japanese capitalist structures. These kind of shareholdings differ basically from the traditional analysis of the shareholder role since it generally implies a long term partnership, where the main objective is not the return on invested financial capital, but rather the increase of the rent related to the industrial and commercial relationship and its sharing. Financial relations, inter-firms loans, or commercial credit can also accompany these trade relations. The only appreciation of the created value from the shareholder point of view is unable to account for these complex value creation and sharing processes.

The preceding point is particularly crucial to understand the way some CG mechanisms, such as the board of directors, operate. Thus, a lot of works – for example, Burt (1983), from the perspective of the resource dependence theory – showed that both trade and financial relationships associated, played an important part in explaining the composition and the role of the board of directors. The role of some directors is no longer to protect the shareholders interests as such, but to supervise the partnership relationships; that can partly explain why it is so difficult to establish a conclusive empirical connection between the board of directors composition and the financial performance of the firm.

Independently of these particular links, managers may have an interest in supporting a value sharing favorable to the durability of a trade relationship, carrying a potential development, rather than to redistribute the created value to shareholders, especially if this relationship, by its idiosyncratic character, contributes to a deeper entrenchment. Thus, if the continuation of a trade relationship necessary to the firm's durability, is related to the manager's own personality, it is probable that shareholders will hesitate to separate from him, even if they consider that the created value share that they receive, is not enough. This aspect of managers entrenchment is seldom evoked, whereas it is probably more widespread, since it is easier to implement, than the increase of specificity of the acquired assets, except if we associate with the concept of idiosyncratic trade relationship, that of a goodwill specific to the manager.

Conclusion

The proposed measure for stakeholder value presents mainly a theoretical interest since, on the one hand, it is well founded in its principles – from the point of view of the analysis of the created rent – and on the other hand, it leads to a revisiting of the problem of value creation and sharing from an enriched point of view, not limited to the only shareholders[23]. The defenders of the traditional measure of created value will object that its implementation is very complex since it assumes identification of opportunity prices and costs for the different SH. This criticism, justified, can however be turned over to them, on the basis of the criticisms addressed by "New Finance[24]" (Haugen, 1996) to the traditional measures of cost of equity. In addition, even if one retains the measures given by the CAPM, the statistical uncertainty that affects the estimates of sensitivity coefficients is enough to strongly question the reliability of measures of the shareholders value creation and of the companies rankings based on EVA.

It is not our aim, however, to criticize only the traditional measures for value creation that satisfy a legitimate concern of shareholders, that of obtaining a "fair" remuneration of the capital they supply. But we cannot understand why this concern would not also extend to the other SH. On the one hand, they can claim, as well from the efficiency as the equity point of view, to receive the fair counterpart of their contributions. On the other hand, they bring forth the most important component of the created value and as their transactions are not generally completely guaranteed, they assume a part of the residual risk. On these grounds, their participation in the global rent sharing appears justified.

However, the main interest of the measure for stakeholder value does not lie in its instrumental character but in the transformation of the traditional analysis linking CG

systems to value creation. In particular, it leads to a different view of the shareholders role among all of the SH and to show that the majority of the recommendations that aim for a reinforcement of the shareholders power might, in fact, be contrary to a maximization objective of the stakeholder value and, more paradoxically, to be revealed in the end to be contrary to the maximization objective of the shareholder value itself.

The problem of efficiency of the CG system can only be questioned within a framework extended to all the SH, in particular when the aim is to compare the Anglo-Saxon systems and the Germano-Nippon or Latin ones ; efficiency must also be studied from the systemic point of view by taking into account the substitutability and complementarity phenomena existing between the various types of disciplinary mechanisms that complicate the study of the performance origin (Charreaux, 1997).

Lastly, we would like to conclude by underlining the danger associated with focusing on "measurement". It is hardly contestable that focusing on the managers/shareholders relationship within the current debate on CG is related to the measurable and objective character of the market value, which is continuously available for the listed companies. However, it is not useless to recall that this measure reflects the entire created value (i.e. the stakeholder value) only under extremely strict assumptions, concerning the various markets functions, which are far from being satisfactory and which will never be, value creation being related to that of market imperfections, in particular, information asymmetries. It thus appears necessary, even if the cost is high, to direct research towards other approaches, perhaps more qualitative, of created value and to study the CG problem according to a concept conforming to the theoretical visions dominating the firm. To better illustrate the pernicious character of the "measurement" focus, we conclude by stating an analogy within the teaching field, where it would be difficult to

accept that the entire created value by the educational function could be measured by notation, the only objective of the research of the maximum mark by the student involving risks of short-termism that each one knows well. It would seem that the encouragement virtues of "measurement" have the same detrimental consequences in the field of corporate value creation…

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[1] According to Von Bertalanfy (1968) equifinality is a property of open systems according to which the final state of equilibrium can be reached starting with different initial conditions and in various ways. Applied to organizational performance, this principle signifies that differently structured organizations can reach the same level of performance, even if they are confronted with the same environment (Gresov and Drazin, 1997).

[2] The EVA or Economic Value Added is equal to the difference between the operating result obtained after tax and the weighted average cost of capital and the MVA, to the invested capital market value (stockholders' equity plus financial debts) less the book value of this same capital. MVA is in fact very close to the Tobin's Q which is equal to the ratio of invested capital market value on the assets replacement value (generally approximated by the book value).

[3] In theory, to the full extent, the stakeholders represent all the agents whose utility is affected by the decisions of the firm.

[4] Shareholders being the only residual claimants, there are no conflicts on the value sharing ; it is this lack of conflicts that justifies the independence between value creation and sharing and thus between the investment and the financing decisions. Financial research, for more than twenty years, in particular since the famous paper of Jensen and Meckling (1976), challenged the separation principle and attempted to take into account the consequences of conflicts of interest. However, generally, it is restricted to the examination of the effects of the conflicts of interest between managers, shareholders and financial creditors.

[5] One could challenge for that matter the validity of the rent measurement for the shareholders only on account of the heterogeneity of the latter, whose objectives and contributions differ. If, for example, we consider that the most influential shareholders are in charge of control, the cost of this control represents an additional component ; these shareholders, likely, will not support this additional cost because they are

in a position to influence the strategic decisions determinant for value creation or to capture a higher share of the rent.

[6] In fact, this reasoning based on flows is close to the one established in terms of stocks by Cornell and Shapiro (1987) in the definition they gave of organizational capital. In the same manner, the created value concept is close to that of “corporate wealth”, the wealth placed at the disposal of the managers, introduced by Myers (1990).

[7] In this last case, the transaction with the State is not negotiable; the State imposes its tax levy, representing the counterpart of the supplied public goods (safety, infrastructure, social protection, education…). The concept of opportunity cost therefore does not have great meaning, except if we consider the firm expatriation issue.

[8] The apparent accounting profit (ignoring depreciation), which does not take into account the shareholders’ compensation, would be 900 - (200 + 300 + 100 + 30) = 270. This profit is supposed to be allocated to shareholders. The difference between the two concepts can, of course, be more significant. In the same way, created value is different from ‘value added’ (the French concept of “ valeur ajoutée ”), evaluated from the explicit prices and costs and equal to the difference between sales and external factors of production explicit costs. For example, the added value would be 900 - 200 = 700. The added value is not a relevant measure since, on the one hand, it is calculated from the explicit prices, and on the other hand, it retains only external consumption of goods and services as external factors. In addition, the suggested measure is relevant only if the opportunity costs take into account, for evaluation of opportunity remuneration, the necessity of preserving the invested capital value. For example, if the contribution is assumed to last only one period, the opportunity cost measure must include the refunding of invested capital, i.e., for financial creditors, the principal.

[9] For this reason, it would be necessary to deduct the value of replacement investments, assumed to be measured by accounting depreciation. However, it is not sure, in particular because of the firm strategy evolution, that the corresponding funds are used in this objective. Moreover, in the event of a strong financial constraint, the replacement can be differed.

[10] These differences in opportunity costs and prices measures allow to distinguish rents from quasi-rents.

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[11] The rent (or ricardian rent or efficiency rent) for a resource supplier is equal to the supplement of remuneration perceived compared to the minimal remuneration required to initiate the transaction ; it appreciates with regard to entry into the co-operation. It is normally related to the scarcity of the factor. Thus, a manager perceives a rent if his explicit remuneration is higher than his opportunity remuneration ; this supplement is bound to the scarcity of his supposed managerial competencies creating more value. The quasi-rent is equal to the perceived remuneration supplement in addition to the minimal remuneration necessary for the continuation of the co-operation; it takes into account the costs of exit (loss of value) due to the increase in the asset specificity once the relation has begun. For a manager, the quasi-rent equals the supplement of remuneration he perceives, compared to the most he would receive in another firm, after taking into account the human capital losses linked to specificity. These aspects are especially well clarified in Milgrom and Roberts (1992) and, for managerial rents, in Castanias and Helfat (1991).

[12] In the sense where financial capital does not have specificity.

[13] In accordance with the incomplete contract theory and with the definition it retains of ownership ; residual decision rights allow an allocation of decision-making in the cases not completely foreseen by contracts. The same applies to the residual profit rights.

[14] We assume then that internal funds and bank loans are insufficient to finance the growth, that remains to be shown.

[15] In France, the important profitability of venture capital firms corroborates the existence of this phenomenon. Thus, the repurchase of minority shareholdings reaches a profitability of 40% over the period 1978-1994 according to the 1995 Afic Ernst & Young study.

[16] Considering the current American situation that results in a massive repurchase of stocks, it seems that managers seek to avoid shareholders' discipline. Not only did this situation not seem to have led to a performance decrease but, on the contrary, seems to be accompanied by a important growth, a drop in unemployment, as well as an increase in wages in the strongly innovative sectors where the innovations are mainly due to specific human capital.

[17] The many empirical tests, which conclude a semi-strong efficiency of the financial markets, however, do not seem to lead to rejection of this assumption since the information regarding the link between the stakeholder value and the shareholder value is insufficiently precise.

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[18] This argument is also used by Castanias and Helfat (1991, p. 165) in the model they proposed to describe the relationships between managers and shareholders ; they showed that managers have an interest in increasing stakeholder value creation. Their model was limited to the two precedent stakeholders. Managers win when assuring equitable profitability (equal to the equilibrium rate of return) to shareholders. Thus, they preserve the quasi-rents and, moreover, are encouraged to increase the efficiency rents insofar as they appropriate them. In addition, according to results obtained by Allouche and Amann (1995), it seems that the economic performance apparently higher than that of family companies is associated – beyond the agency costs reduction related to the absence of conflicts between shareholders and managers –, with a development policy for human capital based on training and with a different management of human capital, leading in particular to a greater staff stability.

[19] One can however claim that the financial market indirectly evaluates managerial capital.

[20] The link between organizational performance and the CG disciplinary power over the managers was never confirmed (Dherment-Ferère 1996, for a survey).

[21] As Shleifer and Vishny (1997) note in their survey the accusation of short-termism that could strike American companies was never shown empirically.

[22] The downsizing dimension seems more important than investment, because core competencies are bound to the non-reproducible human capital. For this reason, the study of Hall and Weinstein (1996) showing a similar behavior for the American and Japanese companies with regards to R&D investment does not seem to consider the most important element to emphasize the short-termist behavior. Considering the lay-offs in case of difficulties, the Japanese companies behave in a very different way than the American firms. That does not mean however that lay-offs are never a suitable measure to recreate value. In a situation of production of excess capacity, in a sector condemned to disappear or in strong decline, in particular if explicit wage costs are much higher than opportunity costs and are incompressible, a recovery in terms of stakeholder value creation is generally put through measures of this nature.

[23] Moreover, some proximity exists between this analysis and the French method of the “comptes de surplus” even if the use of opportunity prices and costs induces appreciable differences.

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[24] The “New finance”, we find a summarized presentation in Haugen (1996), aims to explain the empirical results obtained on the real link between return and risk, which cannot be predicted by the CAPM. In particular, it appears that the firms presenting a high ratio of book to market value, have a tendency to obtain higher rates of return. This phenomenon might be explained by the assumed tendency of the market to systematically overestimate the duration of abnormal profits. These phenomena also exist on the Paris Stock Exchange (Chauveau and Idriss, 1997).