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The Effect of Emphasizing Shareholder Ownership on Students Agreement with Questionable Corporate Behavior

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I. INTRODUCTION

The purpose of this paper is, broadly speaking, to shed light on how business school education might affect public policy relating to public corporations. Business school education, particularly in corporate finance and financial accounting, emphasizes shareholder ownership—the view that shareholders own the net assets, profits, and, somehow, the corporation itself—to frame corporate governance. We investigate 2 research questions: 1. Does a person's belief in shareholder ownership influence them to agree more with the corporate goal of maximizing shareholder value? 2. Does a person's belief in shareholder ownership influence them to agree more with corporate board decisions that benefit shareholders at the expense of others?

For this paper, we reviewed business school textbooks and found that, particularly in corporate finance and financial accounting, the authors frame corporate governance by emphasizing shareholder ownership. The experiment surveyed two groups of subjects from two sets of managerial accounting classes, asking them, in essence, if they agreed with corporations that sold food tainted by industrial waste water and offshored labor. One set of managerial accounting students was given a counter-frame, which rejected shareholder ownership on legal grounds. The other set of managerial accounting students were given no additional information.

We find that students without the counter-frame agree more with the goal of maximizing shareholder value and more with decisions of corporate boards that possibly harm others in order to benefit shareholder. These findings imply that business school education, by teaching a sole proprietor frame, potentially leads students to make judgments and decisions that they would not otherwise make if they understood corporate law.

Based on the results, business school education should teach corporate governance by explaining that shareholders do not own the corporation, according to the law, and emphasizing that it is board of directors that has the legal right and power to control the America large public corporation. The results suggest that students would graduate with an attitude less favorable to decisions that benefit shareholders at the expense of the environment and labor. Such a change might affect public policy such that problems scholars cite, which result from maximizing shareholder value, including income inequality, climate change, and pollution, might be reduced. (Dobbin and Jung 2010*)*

II. LITERATURE REVIEW

Erving Goffman's (1974) explains that people make sense of issues by using "frames" to "to locate, perceive, identify, and label" (p. 21). Chong and Druckman (2007) note that a "frame in communication" refers to how elites use "words, images, phrases, and presentation styles" to relay information about an issue to an audience. A "frame in thought," refers to what one "believes to be the most salient aspect of an issue." Frames in communication influence frames of thought, by emphasizing a particular attribute to make it more salient in the thought frame of the audience.[1] (See Druckman 2001 & Semetko and Valkenburg 2000) Most research on emphasis frames involves "…how frames in the communications of elites (e.g., politicians, media outlets, interest groups) influence citizens' frames and attitudes." (Chong and Druckman 2007, p. 109) In the current study, the elites are business school instructors and textbooks authors who emphasize shareholder ownership to frame corporate governance. Figure 1 shows how the textbooks in corporate finance and financial accounting describe shareholders as the owners of large public corporations. In addition to calling shareholders the owners of the corporation, the Shareholders' Equity section of the balance sheet implies that shareholders' own the net assets and undistributed profits. Those textbooks that justify the assertion of shareholder ownership, invoke the

[1] **Framing effects include "equivalency framing effects" and "emphasis framing effects." (Druckman 2001) Equivalency frames refer to logically alike content, which is presented or phrased differently (Kahneman and Tversky 1984).**

power of shareholders to elect the board of directors. Like previous studies, this paper investigates how emphasizing shareholder ownership in framing corporate governance influences whether students agree or disagree with the decisions of corporate boards that benefit shareholders at the expense of others. Few studies, if any, examine the effects of how business school education frames corporate governance on how students perceive the goal of corporate governance. The closest study is a non-peer-reviewed study by the Aspen Institute (2001), which surveyed MBA students before, during, and after the program, finding that students agreed with the goal of maximizing shareholder value more during and after graduation than they did before, implying that business school education influences students to embrace the view that corporate boards should seek to maximize shareholder value. The study did not identify the attribute influencing students to accept the goal of maximizing shareholder value.

To examine how emphasizing shareholder ownership affects whether students agree with the goal of corporate governance of maximizing shareholder value, we used a "counter-frame" (See Chong and Druckman 2013). The counter-frame in this paper emphasizes that shareholders do not legally own the large widely held public corporations. (Stout 2012) In addition, shareholders own shares of stock, which give them a right to vote in board elections; however, empirically, shareholders only very rarely oust board members. (Bebchuk 2005)

III. THEORY

Business schools frame corporate governance of large public corporations by emphasizing shareholder ownership, while shareholder ownership justifies the goal of maximizing shareholder value. We contend that to the degree one agrees with shareholder ownership, s/he agrees with the corporate goal of maximizing shareholder value. This contention rests on the belief that few people would disagree that, for sole proprietorships, employees should run the business how the owner wishes. If one agrees that shareholders own the large public corporation, then shareholders must have the same legal claims to the assets and profits as sole proprietorship. If one accepts that shareholders are owners, s/he should agree that boards should seek to maximize shareholder value—like s/he would agree that employees in a sole proprietorship should work in the owner's best interests Therefore, to the extent one agrees that shareholders own the profits, net assets, and corporation, s/he should agree that the goal of corporate boards should be to maximize shareholder value.

Hypothesis 1: Relative students given no additional information, those given a counter-frame, which contradicts shareholder ownership as legally incorrect, should agree <u>less strongly</u> with the statement that the purpose of corporations is to maximize shareholder value

To the extent one agrees that the goal of corporate boards should be to maximize shareholder value, the more s/he should agree with board decisions that hurt others as long as it benefits shareholders.

Hypothesis 2: Relative students given no additional information, those given a counter-frame, which contradicts shareholder ownership as legally incorrect, should agree <u>less strongly</u> with board decisions that benefit shareholders at the expense of others.

After reviewing numerous business school textbooks, we noted that certain courses emphasize shareholder ownership to frame corporate governance. Figure 1 shows 9 financial accounting textbooks and 3 corporate finance textbooks, all of which state that shareholders are part owners of the corporation. Those few textbooks that justify the assertion of shareholder ownership note that shareholder ownership is justified by the threat of the shareholders' right to vote out the board. In addition to noting shareholder ownership, the corporate finance textbooks also note that boards and management should maximize shareholder value.

[Insert Figure 1 Here]

Experiment: Subjects were comprised of students in 4 sections of managerial accounting classes, 2 from fall 2015 and 2 from spring 2016. Subjects were given a survey at the beginning of the semester that asked for their name, first language, country of residence, major, and the semesters in which they took the courses in corporate finance.

Experimental Instrument : The survey asked students to rate, on a 5-point scale, how strongly they agreed/disagreed with 2 statements and 2 hypothetical decisions made by a board of a large public corporation.
Statements:

1. The purpose of the large widely held public corporation is to increase profits for stockholders. Do you agree or disagree with this statement?
2. In a large, widely held public corporation, stockholders own the corporation and profit? Do you agree or disagree with this statement?

Board Decisions:
1. A large, widely held public corporation in the electronics industry relies on about 1,000 American workers to assemble its products. The corporation's Board of Directors is considering the possibility of relocating the work of these employees to countries where wages are much lower. Relocating the work would result in lower labor costs and, therefore, higher profit; however, the 1,000 workers would lose their jobs. The Board of Directors decides to relocate the work to countries with much lower wages. The Board contends that its decision was appropriate. Do you agree or disagree with the Board's decision?
2. A large, widely held public corporation in the agriculture industry is faced with rising prices for water. Its Board of Directors is considering purchasing wastewater used in industrial fossil fuel production because it is far cheaper than clean-water alternatives. Using industrial wastewater to water crops and wash produce is legal; however, the health effects are unknown. The Board of Directors decides to purchase the wastewater in order to increase profits. The Board contends that its decision was appropriate. Do you agree or disagree with the Board's decision?

IV. EXPERIMENTAL DESIGN

Subjects from 2 of the 4 managerial accounting classes, one in fall 2015 and one in spring 2016, were given no information beyond the sole proprietor frame of corporate governance taught in their courses. All corporate finance and introductory financial accounting textbooks refer to shareholders as owners of the corporation. In addition, the balance sheet implies that shareholders own the net assets and profit. Subjects from the remaining 2 of the 4 managerial accounting sections were given a legal argument held by a consensus of legal scholars against shareholder ownership. They were told that legal scholars agree that shareholders do not own the corporation on the grounds that the board does not owe a fiduciary duty to only shareholders. In addition, they were told that shareholders cannot sue the board to obtain the corporate profits, and, empirically, that the right to vote in board elections in the past has been ineffectual. A professor administered this counter-frame by taking about 15 minutes to present to the class the information in PowerPoint slides. In both sections, the counter-frame was administered at the beginning of the semester, on a Wednesday, and the survey was administered on the following Friday.

Results : Table 1 shows the descriptive statistics showing the sample, which consists of 131 students that were not exposed to the legal counter-frame and 100 students. All response averages were in the expected direction.

To test the hypothesis this study uses a univariate test (Table 1), a Chi Square test (Table 2), and multivariate test (Table 3). The Chi Square test was used to determine if the result might culminate in a choice, we converted the 5 point scale to 3 points: 1. Agree (#4 and #5 on the original scale), 2. Neutral (#3 on the original scale, and 3. Disagree (#1 and #2 on the original scale). We used a Chi-Square to determine if the distribution of Agree, Neutral and Disagree is similar or not among those students that received the counter-frame compared to those that did not.

To determine the validity of the counter-frame, Table 1 and 2 both show that those given the counter-frame agree less strongly Statement 1 above at a significance level of $p < .01$. This result implies that students understood and accepted the counter-frame.

To test H1, Table 1 and 2 both show that those given the counter-frame agree less strongly with Statement 1 above. Those students exposed to the counter-frame agree less strongly to Statement 1 relative to those not given the counter-frame. Table 1 shows $p < .05$ and Table 2 shows $p < .01$.

[Insert Table 1 Here]

To test H2, Table 1 and 2 both show that those given the counter-frame agree less strongly with Board Decisions #1 and #2 above. Those students exposed to the counter-frame agree less strongly to Board Decision #1 relative to those not given the counter-frame; however, Table 1 does not show a significant p-value, while Table 2 shows $p < .01$. Those students exposed to the counter-frame agree less strongly to Board Decision #2 relative to those not given the counter-frame with both Tables 1 and 2 showing $p < .01$.

[Insert Table 2 Here]

Table 3, presents the results of an OLS regression. The results reinforce the previous findings. Even after controlling for possible mitigating factors (i.e. self-selection of students to be on certain classes) the results indicate that those students exposed to the legal counter-frame agree less Statement 1.

[Insert Table 3 Here]

V. DISCUSSION

The results imply that the belief that shareholders own the corporation results in the belief that boards should maximize shareholder value. In addition, the belief in shareholders ownership results in people more tolerant of questionable corporate behavior, where shareholders benefit at the expense of others. This is the first study to investigate how framing corporate governance affects one's judgments of corporate behavior.

Weaknesses:

1. Professor Effect--Only one professor taught the counter-frame and that person is the author. The survey was given the second week into the semester, but there could still be a professor effect that is driving the result.
2. Self-Selection Effect—Students self-selected into sections of managerial accounting. To the extent self-selection correlates with predispositions regarding the variables of interest in this study, the results can be questioned.
3. Some students who took the survey in the counter-frame group did not receive the counter-frame because they were absent, which would add noise to the sample and bias against results.
4. Three student responses are missing from the second semester counter-frame because they were thought to absent during the counter-frame, but were not absent. These responses will be included later and would not affect significance of the variables in the Table 2 results.
5. The salience of the counter-frame does not last. We had students take a survey almost identical to the one given at beginning of the semester and no results were significant. This implies that reinforcement is necessary for the counter-frame to stick.
6. The counter-frame survey was given after almost 2 weeks into the semester and the survey in the no-frame group was given 1 week earlier, which makes for problems in comparing the groups.
7. Board Decision #2 was slightly different between semester experiments. The first semester experiment mentioned the wastewater was from fracking. We took fracking out in the second semester because some students did not know what fracking was. This weakness might add noice to the data in the first semester.

VI. CONCLUSION

We investigated 2 research questions: 1. Does a person's belief in shareholder ownership influence them to agree more with the corporate goal of maximizing shareholder value? 2. Does a person's belief in shareholder ownership influence them to agree more with corporate board decisions that benefit shareholders at the expense of others? The results imply that the belief that shareholders own the corporation results in the belief that boards should maximize shareholder value. In addition, the results imply that the belief in shareholder ownership results in people more tolerant of questionable corporate behavior, where shareholders benefit at the expense of others. This is the first study to investigate how framing corporate governance affects one's judgments of corporate behavior.

Future studies should address the weaknesses identified in the previous section. Other studies could address the same research questions in different ways. For example, examining student views on corporate behavior before and after certain classes (e.g., corporate finance) and programs (e.g., undergraduate and graduate business school education) would be interesting. If by introducing corporate law into discussions of corporate governance, students have less tolerance for questionable corporate behavior, there are implications for pubic policy. A public less tolerant of behavior that harms others to benefit shareholders might see improvements in wealth and income inequality as well as reductions in carbon and methane emissions. Ultimately, business education might be a more positive force in the world.

Table 1
Descriptive with
Univariate Statistics

	No Counter-Frame			Counter-Frame				
	N	Median	Mean	N	Median	Mean	Diff Means	Sig. level
Statement #1	125	4	3.62	95	2	2.56	-1.07	4%
Statement #2	125	4	3.67	95	4	3.13	-0.55	1%
Board Dec #1	127	3	3.18	97	3	2.80	-0.38	31%
Board Dec #2	127	2	2.22	97	1	1.62	-0.60	1%

Table 2
Chi-Square Statistics

A. Question #1

Statistic	DF	Value	Prob.
Chi-Square	2	39.69	<.0001

Frequency Distribution

	Agree	Neutral	Disagree	Table
Counter-Frame	24 (29.27%)	30 (66.67%)	77 (74.04%)	131
No Counter-Frame	58 (70.73%)	15 (33.33%)	27 (25.96%)	100
Total	82	45	104	231

B. Question #2

Statistic	DF	Value	Prob.
Chi-Square	2	28.33	<.0001

Frequency Distribution

	Agree	Neutral	Disagree	Table
Counter-Frame	24 (34.29%)	29 (87.88%)	78 (60.94%)	131
No Counter-Frame	46 (65.71%)	4 (12.12%)	50 (39.06%)	100
Total	70	33	128	231

C. Board Decision #1

Statistic	DF	Value	Prob.
Chi-Square	2	17.70	<.0001

Frequency Distribution

	Agree	Neutral	Disagree	Table
No Counter-Frame	82 (49.40%)	22 (62.86%)	27 (90.00%)	131
Counter-Frame	84 (50.60%)	13 (37.14%)	3 (10.00%)	100
Total	166	35	30	231

D. Board Decision #2

Statistic	DF	Value	Prob.
Chi-Square	2	6.4313	.0401

Frequency Distribution

	Agree	Neutral	Disagree	Table
Counter-Frame	48 (50.53%)	25 (50.00%)	58 (67.44%)	131
No Counter-Frame	47 (49.47%)	25 (50.00%)	28 (32.56%)	100
Total	95	50	86	231

Table 3
OLS regression

Number of Observations Read	231
Number of Observations Used	224
Number of Observations with Missing Values	7

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	19	46.40992	2.44263	1.87	0.0178
Error	204	266.22847	1.30504		
Corrected Total	223	312.63839			
Root MSE	1.14238	R-Square	0.1484		
Dependent Mean	1.95982	Adj R-Sq	0.0691		
Coeff Var	58.29022				

Parameter Estimates

Variable	Label	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	Intercept	1	1.63049	0.3134	5.2	<.0001
acct		1	0.10125	0.4717	0.21	0.83

ba		1	0.32132	0.3662	0.88	0.381
et		1	0.72318	0.5074	1.43	0.156
fin		1	0.64108	0.367	1.75	0.082
ib		1	0.65095	0.4405	1.48	0.141
mkt		1	0.73385	0.3907	1.88	0.062
hosp		1	-0.03049	0.5994	-0.05	0.96
bus305_before		1	0.95335	0.3534	2.7	0.008
bus305_now		1	0.17066	0.2405	0.71	0.479
counter		1	-0.18092	0.4464	-0.41	0.686
c_acct		1	0.12788	0.6751	0.19	0.85
c_ba		1	0.1048	0.5345	0.2	0.845
c_et		1	-0.58039	0.7492	-0.77	0.439
c_fin		1	-0.48094	0.5471	-0.88	0.38
c_ib		1	-0.67483	0.7789	-0.87	0.387
c_mkt		1	-1.12191	0.5554	-2.02	0.045
c_hosp		1	0.27397	0.7996	0.34	0.732
c_bus305_before		1	-0.8477	0.6667	-1.27	0.205
c_bus305_now		1	-0.02204	0.346	-0.06	0.949

$$Response\ (1-5) = \alpha + \beta_1 Acct + \beta_2 Acct + \beta_3 BA + \beta_4 ET + \beta_5 Fin + \beta_6 IB + \beta_7 Mkt + \beta_8 Hosp + \beta_9 BUS305_{before} + \beta_{10} BUS305_{now} + \beta_{11} Counter + \varepsilon$$

Where,
Response = 1 to 5 scale on the agreement to the statements presented on the previous section.
Acct = indicator variable if the student major is Accounting;
BA = indicator variable if the student major is Business Administration;
ET = indicator variable if the student major is Entrepreneurship and Innovation;
Fin = indicator variable if the student major is Finance;
IB = indicator variable if the student major is International Business;

Mkt = indicator variable if the student major is Marketing;
Hosp = indicator variable if the student major is Hospitality;
BUS305_before = indicator variable if the student took Principles of Finance on previous semesters;
BUS305_now = indicator variable if the student is enrolled in Principles of Finance on the current semester;
Counter = indicator variable if the student was part of the counter frame group;

Figure 1
Textbooks with Quotes

Introductory Financial Accounting Textbooks

Harrison et al (2013 p. 6)	"A corporation is a business owned by the stockholders, or shareholders, who own stock representing shares of ownership in the corporation."
Kimmel et al (2011 p. 4)	"A business organized as a separate legal entity is owned by shareholders is a corporation."
Needles and Powers (2014 p. 5)	"A corporation…is a business unit…separate from its owners (the stockholders)."
Ferris et al (2014 p. 505)	Stockholders are the "owners of the corporation; those with voting shares elect the board of directors."
Williams et al (2010 p. 64)	"Ownership of a corporation is divided into transferable shares of capital stock, and the owners are called stockholders or shareholders."
Warren et al (2014 p. 582)	"Ownership of a corporation is divided into transferable shares of capital stock, and the owners are called stockholders or shareholders."
Rich et al (2014 p. 526)	"Shares are owned in varying numbers by the owners of the corporation called stockholders or shareholders."
Kemp & Waybright (2013 p. 531)	"Shares are owned in varying numbers by the owners of the corporation called stockholders or shareholders."
Horgren et al (2011 p. 16)	"The owners of a corporation have limited liability, which means that corporate creditors (such as banks or suppliers) ordinarily have claims against the corporate assets only, not against the personal assets of the owners."

Corporate Finance Textbooks

Ehrhardt and Brigham (2011 p. 9)	Shareholders are the owners of a corporation, and they purchase stocks because they want to earn a good return on their investment without undue risk exposure. In most cases, shareholders elect directors, who then hire managers to run the corporation on a day-to-day basis. Because managers are supposed to be working on behalf of shareholders, they should pursue policies that enhance shareholder value. Consequently, throughout this book we operate on the objective is stockholder wealth maximization.
Ross et al. (2011 p. 15)	The available theory and evidence are consistent with the view that stockholders control the firm and that stockholder wealth maximization is the relevant goal of the corporation.
Emery et al. (2011 p. 14 & 16)	A corporation is legally a "person" that is separate and distinct from its owners, the shareholders…according to the investment-vehicle model, a firm's goal is to maximize shareholder wealth.

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