Looking Beyond Profit

Small Shareholders and the Values Imperative

Peggy Chiu

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Foreword

At the beginning of the 21st century, the selfish indulgent wealth maximising ethos of the 1990s has been replaced by a welcome concern for socially responsible behaviour, and corporate social responsibility is again back on the agenda of corporations, governments and individual citizens throughout the world. Previously this concern has been known by such terms as environmental responsibility, stakeholder involvement or some similar term. It is only in its current manifestation that it has become generally known as 'corporate social responsibility' or CSR. Thus the term 'corporate social responsibility' is in vogue at the moment but as a concept it is vague and means different things to different people. There is no agreed definition of CSR so this raises the question as to what exactly can be considered to be CSR. According to the EU Commission (2002):

> …CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

The broadest definition of CSR is concerned with the relationship between the global corporation, governments of countries and individual citizens. More locally the definition is concerned with the relationship between a corporation and the local society in which it resides or operates. Another definition is concerned with the relationship between a corporation and its stakeholders. All of these definitions are pertinent and represent a dimension of the issue. A parallel debate is taking place in the arena of ethics concerning whether corporations should be subject to greater control through regulation and whether or not the ethical base of citizenship been lost and needs replacing before socially responsible behaviour will ensue. In whatever form this debate is cast it seems that it must be concerned with some sort of social contract between corporations and society.

This social contract implies some form of altruistic behaviour – the converse of selfishness whereas self-interest connotes selfishness. Self-interest is central to the Utilitarian philosophy promoted by John Stuart Mill and Jeremy Bentham. This is often interpreted as a moral right for the pursuit of the greatest happiness for the greatest number. This is the corner stone of the Free Market system, although more recently there have been many criticisms of this as a philosophy. Similarly Adam Smith is perceived to be the founder of free-market economics, again predicated in enlightened but competing self-interest. These influential ideas put interest of the individual above interest of the collective. The central tenet of social responsibility however is the social contract between all the stakeholders to society, which is an essential requirement of civil society. This is alternatively described as citizenship but for either term it is important to remember that the social responsibility needs to extend beyond present members of society. Social responsibility also requires a responsibility towards the future and towards future members of society. Subsumed within this is of course a responsibility towards the environment because of implications for other members of society both now and in the future.

A major stakeholder for every company is of course the shareholder, the subject of this book. One of the most commonly held views about shareholders in a business is that they are not interested in managing the business or in the activities of the business but only in the benefit that they will derive from ownership of its shares. In other words, shareholders are interested in profit – either to be distributed to them in the present in the form of dividend payments, or to be reinvested in the business to lead to future profit and dividend, and represented in the present as growth in the value of shares. Essentially this is an economic wealth view of shareholders and their behaviour which fits with the free market doctrine of the present and the wealth creation rationale commonly deemed to hold true in society.

The basic assumption of economic activity is of course that it should be organised into profit seeking firms, each acting in isolation and concerned solely with profit maximisation, and justified according to Utilitarianism and Classical Liberalism. This has inevitably resulted in management which was organisation-centric, seeking merely to measure and report upon the activities of the firm insofar as they affected the firm. Any actions of the firm which had consequences external to the firm were held not to be the concern of the firm. Indeed enshrined within Utilitarianism, alongside the sanctity of the individual to pursue their own course of action, was the notion that the operation of the free market mechanism would mediate between these individuals to allow for an optimised equilibrium based upon the interaction of these freely acting individuals, and that this equilibrium was an inevitable consequence of this interaction. As a consequence any concern by the firm with the effect of its actions upon externalities was irrelevant and not therefore a proper concern for its management.

Given that managers have both the ability to commit the organisation to whatever contracts and transactions they feel appropriate and a responsibility towards the owners of the business, there was a need to ensure that this responsibility took place. It is normally accepted that Agency Theory provides a platform upon which this can be ensured. Agency Theory suggests that the management of an organisation is undertaken on behalf of the owners of that organisation, in other words the shareholders. Consequently the management of value created by the organisation is only pertinent insofar as that value accrues to the shareholders of the firm. Implicit within this view of the management of the firm is that society at large, and consequently all other stakeholders to the organisation, will also benefit as a result of managing the performance of the organisation in this manner. From this perspective therefore the concerns are focused upon how to manage performance for the shareholders and how to report upon that performance.

This view of an organisation has however been extensively challenged by many writers, who argue that the way to maximise performance for society at large is to both manage on behalf of all stakeholders and to ensure that the value thereby created is not appropriated by the shareholders but is distributed to all stakeholders. Others argue that this debate is sterile and that organisations maximise value creation not by a concern with either shareholders or stakeholders but by focusing upon the operational objectives of the firm and assuming that value creation and equitable distribution will thereby follow. This debate is of course central to the discourse of CSR and hence to the Gower book series on applied CSR of which this book is a welcome addition.

Agency Theory is also known as the shareholder theory of the firm and concerns the role of the management of a firm as the agents of the shareholders (the principals). The separation of ownership and control that is apparent in large modern-day (joint stock) companies, presently the most common way for a business to be organised, is another significant change since the days of Smith and Mill. It is this separation that leads to what is known as the principal-agent relationship. It is also argued that within this role it is only appropriate for managers (the agents) to use the funds at their disposal for purposes authorised by shareholders (the principals). Further as shareholders normally invest in shares in order to maximise their own returns then managers, as their agents, are obliged to target this end. In fact this is arguing that as an owner a shareholder has the right to expect their property to be used to their own benefit.

The simplest model of Agency Theory assumes one principal and one agent and a modernist view of the world merely assumes that the addition of more principals and more agents makes for a more complex model without negating any of the assumptions. In the corporate world this is problematic as the theory depends upon a relationship between the parties and a shared understanding of the context in which agreements are made. With one principal and one agent this is not a problem as the two parties know each other. In the corporate world the principals are equated to the shareholders of the company. For any large corporation however those shareholders are an amorphous mass of people who are unknown to the managers of the business. Indeed there is no requirement, or even expectation, that anyone will remain a shareholder for an extended period of time. Thus there can be no relationship between shareholders – as principals – and managers – as agents – as the principals are merely those holding the shares – as property being invested in – at a particular point in time. So shareholders do not invest in a company and in the future of that company; rather they invest for capital growth and/or a future dividend stream and shares are just one way of doing this which can be moved into or out of at will. This problem is exacerbated, particularly in the UK where I live, by the fact that a significant proportion of shares are actually bought and sold by fund managers of financial institutions acting on behalf of their investors. These fund managers are rewarded according to the growth (or otherwise) of the value of the fund. Thus shares are bought and sold as commodities rather than as part ownership of a business enterprise.

Most research into shareholder behaviour concentrates upon the large institutional shareholders and the behaviour of fund managers. The research of this book is therefore different in that it looks at the behaviour of individual (and therefore small) shareholders. Investigating the motives for buying behaviour shows that issues connected with CSR are important. This research therefore is a useful contribution to the CSR discourse and the book is very suitable for inclusion in the CSR series. Of particular interest and significance is the study which demonstrates that shareholders are not simply concerned with present and future returns on their investment. In the main they are concerned with all the central issues of CSR – stakeholders, the environment, accountability – and they expect the firms in which they invest to be equally concerned. This is a welcome and optimistic finding – at least for those of us concerned with social responsibility. At the same time it calls into question what we know and take for granted about shareholder behaviour and about the use of financial incentives to govern the agency contract. At the very least it calls for further research into what now appears to be a little understood area of investor behaviour and raises the similar question regarding the motivations and behaviour of the large institutional investors. This research was undertaken primarily in New Zealand but is equally relevant to at least the rest of the Anglo Saxon corporate world. Another question however is the extent to which these arguments and findings apply elsewhere in the world – probably everywhere given the seeming unstoppable hegemony of the Anglo Saxon business and market model. But we need to find out. Peggy has done both the investment world and the academic world a great service through this research in showing that our assumed knowledge of investment behaviour cannot be taken for granted.

David Crowther
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Preface

My sincere thanks to the many who travelled this research journey with me.

Looking Beyond Profit empirically challenges the common belief that maximisation of wealth is the sole concern of ordinary individual shareholders when they make share-buying decisions. This convenient assumption is so deeply embedded in both the corporate and investment worlds that virtually no extensive efforts have been made to uncover what other corporate concerns and motivations ordinary investors may have, and how these become major influences on shareholders' investment decisions. It is a fact that individual shareholders form an important part of the investing public.

I have been an investor, both direct and indirect, in the Hong Kong, Australian and New Zealand share markets for over 20 years. Before embarking on this in-depth inquiry into the personal values of small shareholders, I had often wondered what drove me, and also my fellow investors, *ceteris paribus*, to invest in or to stay away from certain companies. Obviously, factors such as emotions, subjective judgments or the so-called gut feel come into play in the buy-and-sell decision-making process of individual shareholders. As a researcher, I have, therefore, sought to find answers that can provide a coherent and meaningful explanation of the share-buying behaviour of ordinary shareholders.

Looking Beyond Profit first details the results of three strands of investigation: the personal values that motivate and guide shareholders when they make investment decisions; the qualities that shareholders expect of company directors; and the concerns that small shareholders have when considering companies' corporate responsibility practices. Then it illustrates the interrelationships between the results of those three strands of investigation and reveals how shareholders relate to their values when evaluating whether a company will become an investment target.

The issues raised in this book add a values-based dimension to the behavioural characteristics of ordinary shareholders. The information will be of practical relevance to corporate management, and the financial advisory and investment industries. A number of unique features in the book that were developed from the findings of the inquiry can be adopted for practical use. For instance, a values matrix categorising the 11 core values of shareholders and the indirect questioning technique that taps into the values of shareholders can be developed as an analytical tool that will enable financial investment advisers to discover the values of their clients and thus gain a more in-depth understanding of their needs, rather than categorising them solely according to their risk attitudes. A tabulated ranking of directors' qualities that shareholders consider as important is an, until now, unknown factor that they apply in their examination of the quality of a company's governance. A hierarchical list of 31 corporate responsibility concerns of small shareholders clearly identifies how they believe each stakeholder (employees, customers, suppliers, shareholders, the community and the environment) should be treated. The hierarchy brings to the fore the pragmatism of ordinary shareholders: they understand and expect their companies to look after their major stakeholders and the environment. The specific descriptions of each of the corporate responsibility issues, supplemented by the shareholders' own words, also serve as useful guidelines for corporate management to build enlightened relationships with shareholders as well as other stakeholders.

This book serves as a starting point for corporate management and the investment industry to develop a deeper understanding of ordinary investors. I recall when I started on this research project, a number of friends and colleagues said to me that all that shareholders want is money, otherwise they would not be investing in the share market. It's as simple as that, they said. As can be seen from the results of this inquiry, there is much more to the behaviour and attitudes of shareholders than meets the eye; it's not 'as simple as that' at all.

Peggy Chiu

Chapter 1
How Much Do We Know About Ordinary Small Shareholders?

> There is no way that I think the shareholders are the most important thing; that's silly.
>
> 77-year-old male shareholder

> All stakeholders should be considered on not only financial, but moral and ethical grounds.
>
> 52-year-old male shareholder

> I have a lot of problems with organisations that very, very narrowly pursue their self-interest at the expense of everybody around them, and have just a very basic respect for people and the environment and society.
>
> 52-year-old male shareholder

The rise of institutional investors in share ownership in the past few decades has seen the share holdings of small investors seemingly diminish in significance. Certainly, the sheer voting power of institutional investors means that at times they can influence the direction of the companies in which they invest. Nevertheless, we should not overlook the fact that individual share owners do constitute, and will remain, an important and necessary segment of the investment landscape. Indeed, in countries such as the USA, Canada, Australia and Hong Kong, the number of individuals holding some form of direct or indirect share investments has grown more than three-fold over the last 20 years. From the corporate standpoint, small shareholders[1], being pragmatic long-term investors, can play an important role in their companies' – not always enthusiastic – uptake of the canon of corporate social responsibility. This book empirically counters the common belief that maximisation of wealth is the sole concern of ordinary small shareholders when they make their share-buying decisions. The shareholder comments above are just snapshots of what corporate responsibility means to individual share owners; their voices need to be heard.

During the last 20 years, there have been substantial increases in equity/share ownership by individuals in countries such as the USA, Canada, Australia and Hong Kong. In the US, the number of households owning shares has grown more

1 Individual mainstream investors, as distinguished from so-called ethical investors.

than three-fold since the early 1980s. In 2005, half of all US households owned shares directly or through mutual funds (Investment Company Institute and The Securities Industry Association, 2005). Similar trends also exist in Canada, Australia and Hong Kong. In 2004, 49 per cent of Canada's adult population were share investors, compared with 13 per cent in 1983 (Investment Dealers Association of Canada, 2004). In 2006, 46 per cent of Australia's adult population owned shares directly or indirectly compared with 15 per cent in 1991 (Australian Securities Exchange, 2007; Australia Stock Exchange, 2005a). In 2005, about 29 per cent of Hong Kong adults invested in shares, a three-fold rise from 9 per cent in 1992 (Hong Kong Exchanges and Clearing Limited, 2006).

In the UK, Sweden, Switzerland and New Zealand, at least one in five members of their adult populations are direct share owners. Very similar trends are found in Finland and the Netherlands: 20 per cent of these countries' households own shares (Australian Stock Exchange, 2005a; Cocca et al., 2006). Clearly individual shareholders, as distinct from institutional shareholders, are important and necessary players in investment and financial markets. Despite this, it is astonishing that almost nothing is publicly known about the motivations, ideals and share selection processes of ordinary, individual, small shareholders[2] as a significant sector of the investing public.

This introductory chapter begins with a review of the survey studies conducted by major stock exchanges in the world on the profile, attitudes and behaviours of their direct share owners. The results of this review show that these studies do not necessarily provide us with any deep understanding of the investment behaviour of individual shareholders. The question of whether non-economic factors – shareholders' personal values – have an effect on their share-buying decisions has till now been uninvestigated and unanswered. As pointed out by authors of human values studies (for instance, Connor and Becker, 1994; see also 1975 and 2003), human behaviour is the manifestation of our fundamental values and corresponding attitudes, and, particularly, values underlie attitudinal processes. It can therefore be argued, and it is a principal finding of the inquiry upon which this book is based, that shareholders unknowingly relate their personal values to their views of companies' espousal of corporate social responsibility (CSR) when they make share-buying decisions.

The second part of this chapter is a critique of current marketplace assumptions showing that it is too simplistic to assume that shareholders are manifestations of *Homo Economicus*: rational profit maximisers. In order to gain a deeper and more meaningful understanding of the investment behaviour of shareholders, it is necessary to find out the core values that influence shareholders' investment decisions, and to also examine how those values relate to shareholders' CSR concerns. These findings will be of benefit to companies from a strategic

2 'Ordinary' shareholders will also be referred to as 'individual', 'small' shareholders or simply shareholders throughout this book.

standpoint. By being made aware of the CSR concerns of small shareholders[3], companies can take steps to develop enlightened relationships with not only their shareholders but also other stakeholders. The findings also provide a useful tool for the investment industry in designing products and services that cater for the needs of share investors. The final part of this chapter briefly outlines the in-depth inquiry into the impact of personal values on shareholders' share-buying decisions which underlies the ideas developed in this book and the principal reason why this research project was conducted in New Zealand.

What Do We Know About Small Shareholders?

Information on ordinary individual shareholders can be drawn from two main sources. One is a series of demographic and behavioural surveys of individual share owners conducted separately by stock exchanges and research organisations in different countries[4]. The other source is a small number of empirical studies that investigate shareholders' attitudes towards CSR and ethical investing.

Demographic Profile

Share owners in different countries have a number of common characteristics: the age groups of individuals who invest in shares are largely similar and educational levels are much the same, as are their personal/household incomes and occupations.

The majority of shareholders tend to be in the older age groups and very few are aged under 35. For example, in the US, about two-thirds of shareholders are between the ages of 35 and 64 (New York Stock Exchange, 2000); and in Hong Kong, more than half of the share investors are aged between 40 and 59 (Hong Kong Exchanges and Clearing Limited, 2006). In Australia, one in two adults aged over 55 years are likely to own shares directly as compared to 27 per cent in the 25–34 age group (Australian Securities Exchange, 2007). Similarly, the majority of Canadian, New Zealand and Italian shareholders are aged over 35 (Toronto Stock Exchange, 2002; Australian Stock Exchange, 2005a; New Zealand Stock Exchange, 2000).

Shareholders are likely to have a high level of education, reflected by the large proportion who hold tertiary level, or above, qualifications. In Australia, 42 per cent of direct share owners are degree qualified (Australian Securities Exchange, 2007). The New Zealand situation is similar: the probability of tertiary-educated

3 Results of the inquiry show that small shareholders do not have a 'me-first' attitude, and that it is important to them that their companies look after customers, employees and the environment.

4 Unfortunately some survey results are not made publicly available; for instance, any demographic profile of UK share investors.

individuals owning shares is around 50 per cent (New Zealand Stock Exchange, 2000). In the US, individuals with college degrees or post-graduate training account for 38 per cent of all shareholders (New York Stock Exchange, 2000). In Hong Kong, close to 41 per cent of stock investors have tertiary or above education (Hong Kong Exchanges and Clearing Limited, 2006). Similar situations can also be found in Canada, Switzerland and Italy (Toronto Stock Exchange, 2002; Cocca et al., 2006; Australian Stock Exchange, 2005a).

The incidence of share ownership increases among individuals who are high income earners or who have high household incomes. Research shows this to be the case in Hong Kong, New Zealand, Australia, Switzerland, Germany and Canada (Hong Kong Exchanges and Clearing Limited, 2006; New Zealand Stock Exchange, 2000; Australian Stock Exchange, 2005a; Cocca et al., 2006; Toronto Stock Exchange, 2002). For instance, 55 per cent of Australians with a household income of A$100 000 and over are believed to have direct investment in shares (Australian Securities Exchange, 2007).

Individuals who are in managerial or professional positions are more likely to be share investors. This trend is evidenced in Hong Kong, New Zealand, USA and Italy (Hong Kong Exchanges and Clearing Limited, 2006; New Zealand Stock Exchange, 2000; New York Stock Exchange, 2000; Australian Stock Exchange, 2005a).

The common characteristics illustrated by these share-owner surveys in fact generally fit the descriptions of typical ordinary shareholders by Lewis (2001) and Hanson and Tranter (2006): the majority of ordinary investors are aged over 45, hold professional qualifications and are in the higher income group.

Behavioural Characteristics

Individual shareholders generally take a long-term view with their share investments: ‘Nearly all equity owners [in USA] in 2005 follow a buy-and-hold investment philosophy.’ (Investment Company Institute and The Securities Industry Association, 2005: 4). In Canada, nearly half of the shareholders who invest directly reported having a 1- to 5-year time horizon for holding shares, with an additional 31 per cent holding them even longer (Investment Dealers Association of Canada, 2004). Likewise, the percentage of Swiss shareholders who have an investment horizon of over 8 years and those with 3 to 8 years are 33 per cent and 41 per cent respectively (Cocca et al., 2006), and three in every four UK shareholders are committed to investing for the long term (Ipsos MORI, 2002).

The majority of small shareholders have fewer than ten companies in their share portfolios. Canadian and Swiss shareholders invest in an average of between five and six companies (Toronto Stock Exchange, 2002; Cocca et al., 2006). The mean number of companies held by American share investors is 3.4 (New York Stock Exchange, 2000). The median number of companies held by UK shareholders is 3.07 (Australian Stock Exchange, 2005a). In New Zealand, 24 per cent of shareholders have shares in only one company, while 36 per cent hold shares in between two and five companies (New Zealand Stock Exchange, 2005). Australian shareholders tend to invest in a higher number of stocks; the average number of companies held is nine (Australian Securities Exchange, 2007).

Among share investors in Australia, Canada, New Zealand, Switzerland and UK, the most popular source of information about possible investments is the news media. Though the Internet is increasingly used as a source of financial information, the mass media (newspapers/magazines) continue to be an important source for investment information for shareholders in Switzerland (68 per cent), Canada (66 per cent), UK (56 per cent) and Australia (42 per cent) (Cocca et al., 2006; Toronto Stock Exchange, 2002; Australian Stock Exchange, 2005a; Australian Securities Exchange, 2007). More than a quarter (28 per cent) of New Zealand shareholders say that the media is the most influential source of information for them, as compared with 14 per cent who say that advice from a share broker is most important (New Zealand Stock Exchange, 2005).

Advice from family and friends is another popular source of information: 43 per cent of Swiss share investors say their investment information comes from discussions with acquaintances and friends (Cocca et al., 2006), likewise for 44 per cent of Canadian investors (Toronto Stock Exchange, 2002) and 31 per cent of Australian investors (Australian Securities Exchange, 2007). The share-buying decisions of Australians are often triggered by tips from family, friends or colleagues, and they take more notice of the tips of those whom they regard as successful investors (Australian Stock Exchange, 2005b).

The *ASX* (Australian Stock Exchange) *Study of Share Investors in 2004* traces when and how investors make their decisions and states that advice from family and friends frequently serves as a starting point in the share decision process. Investors usually follow this with some basic research to check out the soundness of the company. More experienced investors may chart the performance history of the company, but novices tend to be attracted to a particular equity sector that has emotional appeal or familiarity. The study says the final step in the decision process is by ‘gut feel’, which ultimately determines if the shares are to be purchased (Australian Stock Exchange, 2005b: 9, 36). It is interesting to note that nearly half of the share investors in that study say they rely on this gut feeling when they make trading decisions. This highlights an important behavioural aspect of share investors: the subjectivity of share investors’ judgment when making investment decisions – whether following the tips of family/friends or choosing their target company by gut feel. In other words, shareholders are not purely rational when they make their share-buying decisions; the term ‘gut feel’ is such a vague concept that it does not really provide us with a meaningful explanation as to why share investors prefer one company over another. There is therefore a need to systematically examine the non-economic factors that drive share investors’ choice decisions.

Shareholders' Attitudes Towards CSR

An investigation of empirical studies of ordinary shareholders shows that the amount of research on the attitudes of ordinary shareholders toward corporate responsibility as a marker of a company's investment worthiness is very limited. However, the five main studies (Epstein, 1992; Ryan 1994[5]; Tippet, 1998, 2000; Muller, 2001; Hanson and Tranter, 2006) provide some indication of the priorities that individual shareholders believe that their companies should address.

American individual shareholders want their companies to put more funds into cleaning up their plants, stopping environmental pollution and improving product safety, even when that means receiving smaller dividends (Epstein, 1992). Ryan (1994) says American shareholders consistently rank and rate long-term profit as the ultimate goal for their companies, with short-term profit relegated to last place. Tippet (1998, 2000) compares the investment decision issues of ethical investors with those of ordinary shareholders in Australia. He finds that ordinary investors do, in fact, express some degree of ethical investment values, concluding that the entirely 'non-ethical' investor may not exist. Muller (2001) finds that among a list of five corporate responsibility issues, Australian ordinary shareholders expect companies to place fairness to employees ahead of making money for shareholders. Hanson and Tranter (2006) investigate six scenarios in which Australian share owners would sell their shares and find that ethical concern is highest on the issue of child labour.

These five studies show that individual shareholders have various ideas about the responsibilities corporations need to address as a matter of course; but there is no concurrence among them as to what they consider the top corporate priority. Epstein's (1992) shareholders put environmental concerns at the top of the list, ahead of getting paid a higher dividend, yet the shareholders in Ryan (1994), in Tippet (2000) and in Muller (2001) are far less concerned with their companies' environmental responsibility. In fact, shareholders in Ryan (1994) rank environmental responsibility second to last in terms of importance; and shareholders in Muller (2001) consider protecting the environment as their least concern.

Shareholders have different attitudes towards investing in companies that use child labour. About 88 per cent of the shareholders in Hanson and Tranter (2006) indicate that they would 'definitely' or 'probably' sell their shares in a company if they discovered that it used child labour. In contrast, shareholders in Tippet (2000) consider cheap labour exploitation as far less important than many other responsibilities, for instance, professional/good business practice and 'promotion of Australian-made'. The existence of a wide disparity between individual shareholders' perceptions of the importance of non-financial issues is obvious.

5 The organisational goals nominated in Ryan 1994 (see also Ryan and Gist, 1995) are in many respects quite similar to the issues relating to corporate responsibility.

It seems, therefore, that our knowledge of individual shareholders goes only as far as their demographic profile and a few behavioural characteristics, such as the number of companies they hold in their share portfolios, and that a majority of them rely on the mass media and advice from family/friends for investment information. However, the questions of why shareholders have different corporate responsibility concerns and why subjective judgments (manifested as emotional appeal, gut feeling) play an influential role in shareholders' decision-making process have remained unanswered. The rest of this book will show how and why shareholders are motivated and guided by their values when they make share-buying decisions.

Why Study Shareholders' Personal Values?

Ordinary shareholders differ from ethical or socially responsible investors in that they are assumed to be primarily interested in the firm's financial performance (Carroll and Buchholtz, 2003) or purely driven by the pecuniary consideration of maximising income or wealth (Lewis, 2002). According to Wärneryd (2001: 293), 'marketing of financial services seems to be built upon the presumption that all investors are active and always eager to increase their wealth'. This is referred to as greed. A reason for such views of ordinary shareholders is that under the neoclassical assumption of *Homo Economicus* (Economic Man), shareholders are self-interested wealth maximisers whose interests are best served by share price maximisation (Rivoli, 1995). However, this narrow assumption that shareholders are purely self-oriented and have no concern for other, non-shareholder, stakeholders does not hold up in light of the findings by Epstein (1992), Muller (2001) and Hanson and Tranter (2006) discussed above.

Countering the Homo Economicus Concept

As conceived by neoclassical economists, *Homo Economicus* is a rational being but is also seen by others (for example, Kuran, 1995; Tomer, 2001) as calculating, self-interested, cold-blooded and 'striv[ing] for personal hedonic satisfaction' (Elster, 1985: 25). Yet the perceptions that shareholders are myopic and are not supportive of their companies' socially responsible activities seem to conflict with the actual behaviour of ordinary small shareholders. Empirical studies show that individual shareholders normally apply a long-term view to their share investments (Lease et al., 1974; Muller, 2001; Ryan and Gist, 1995; Wärneryd, 2001) and their attitudes are not purely self-oriented – that is, maximising profit at the expense of other stakeholders (Epstein,1992; Muller, 2001).

A 2001 survey of Australian individual shareholders shows that 72 per cent of these shareholders view themselves as investors who buy 'for the long haul' (Muller, 2001: 18). Throughout his book *Stock-market Psychology*, Wärneryd (2001) emphasises that ordinary private investors are interested in long-term share holding, not driven by instinct to maximise gains, but to achieve satisfactory results over the long run. The author also refers to research findings in behavioural finance that show many investors in shares tend to be passive and trade sparsely. His observation is that these private investors do not live up to the common image of shareholders as being active and steadily on the look-out for new opportunities to make a profit.

Other empirical studies support Wärneryd's observation that during the last 3 decades individual shareholders have consistently indicated that they invest for long-term profit. Lease et al. (1974: 424) find: 'Long-term capital appreciation is the paramount investment concern … [with] short-term gains clearly at the bottom of the list.' The findings of the more recent study by Ryan (1994) (see also Ryan and Gist, 1995) confirm Lease et al.'s results.

While shareholders may not agree on what the top CSR priority is, they are becoming more aware of the importance of CSR: seven out of ten Australian direct share investors indicate that when it comes to investing in shares, they prefer companies that are socially and environmentally responsible (Australian Securities Exchange, 2007). This reveals a facet of shareholders' investment-choice behaviour that cannot be explained by the neoclassical assumption that they are simply self-interested profit maximisers. In fact, the Economic Man concept is notably deficient in explaining and predicting human behaviour because both the non-economic motivations and social aspects of human nature have been eschewed from the model (Tomer, 2001). Frankfurt (1988: 83) provides a good example of the way that non-economic factors come into the decision-making process. He nominates the notion of caring – in terms of our own ideals, and in terms of those we love. He says: 'A person who cares about something is, as it were, invested in it … Thus he concerns himself with what concerns it, giving particular attention to such things and directing his behavior accordingly.'

As individuals we are inevitably part of society; our decisions and behaviour cannot therefore totally exclude the norms of society. From an early age, each individual has a set of needs or motives that are continually shaped by processes of socialisation in such a way as to conform or become congruent with societal demands (Rokeach and Regan, 1980). As pointed out by Etzioni (1991: 4): 'Individuals do render the final decision, but usually within the context of values, beliefs, ideas and guidelines instilled in them by others, and reinforced by their social circles.' Etzioni (1988), in addition, states that it is not just social behaviour, but also economic behaviour for people to make choices on the basis of their values and emotions. In fact, researchers on human values (Feather, 1995; Rokeach, 1973; Schwartz, 1992, 1994) argue strongly for the motivational and guiding roles of values in all aspects of our lives. Rokeach (1973) includes in his structure of universal human values, terminal values (end-states of existence) that may be self-centred or society-centred, intrapersonal or interpersonal in focus. This is very much in accord with the view of Etzioni (1991) above. In short, societal values have a place in the values an individual holds.

Self- and Others-oriented Values

Our values, whether self- or society-oriented, play a vital role in our lives and how we perceive things. A number of studies conducted on managers and consumers support the assertions of Connor and Becker (1994, 2003) and Williams and Hall (2006) that values underlie our attitudinal processes and they are fundamental determinants of our perceptions, attitudes and behaviours. For the managerial side, it has been found that personal values do have an effect on managers' corporate strategy choices (Guth and Tagiuri, 1965), the way managers behave on the job and their career success (England, 1967, 1975), and their decision-making styles (Connor and Becker, 2003). In a survey study of the sustainability practices of New Zealand firms, Lawrence and Collins (2004) found that the key driver for environmental and social sustainability practices comes from the personal values and beliefs of management, and this is true for large firms as well as small and medium-sized firms.

On the consumer front, Homer and Kahle (1988) surveyed consumers on their natural-food shopping behaviour and found that the values that guide people's daily lives are associated with their nutrition attitudes, and those attitudes significantly influence their natural-food shopping behaviour. Similarly, in a study of tourists' vacation activities preferences, Madrigal and Kahle (1994) found that knowledge of tourists' personal values is a better predictor of their vacation activity preference than demographic information. These studies show that personal values do have an effect on both managers and consumers in their choice of action in these roles.

Some researchers have studied the value orientations of managers and consumers to find if they are linked with their attitudes on corporate social responsibility (Agle, Mitchell and Sonnenfeld, 1999; Egri et al., 2004; Mercer, 2003). Agle et al. (1999) write about the relationship between CEO values and corporate performance. The authors separately hypothesise that there is a positive relationship between CEO others-regarding values and corporate social performance (employee relations, product innovation and safety, environmental stewardship and community relations); and that there is a negative relationship between CEO others-regarding values and the profitability component of corporate performance. Though the overall pattern of findings does not support the assumption that there is a significant relationship between CEO values and corporate performance, it is noted that there is a correlation between CEO others-regarding values and corporate community performance ($p < .10$).

Egri et al. (2004) studied the relationship between managers' values and their perceptions of corporate responsibilities. Their conclusion is that though personal values do not have a significant influence on the importance that managers and professionals attribute to corporate *social* responsibilities, they do have an effect on how managers perceive corporate *environmental* responsibilities. The authors find that the importance of environmental responsibilities is negatively related to managers with individualism values which emphasise independence, individual expression and freedom to meet one's personal interests and goals; and positively related to those with universalism values which emphasise social harmony and equality.

Mercer (2003) investigated the relationship between consumers' value orientations and their perceptions of the importance of the well-being of other stakeholders (employees, society at large and shareholders); and also their own well-being as consumers. His results indicate that consumers whose values are more oriented toward others' well-being place a significantly greater importance on corporate social responsibilities that affect the well-being of society at large and of employees, when compared with consumers whose values are more oriented towards self-enhancement. Interestingly, Mercer finds that consumers' concern for the well-being of others in general does not include concern for shareholders. His explanation is that consumers' orientation towards the well-being of others extends only to those who are perceived to have less power or who are perceived to be subjugated by the corporation, whereas shareholders have the choice of severing their relationship with a corporation by selling their shares.

In essence, the findings of each of the above three studies show that there is an association between one's values and the importance one places on certain aspects of corporate responsibility. Nevertheless, the existence of association depends on the type of value – whether it is self-oriented or others-oriented, and also on what the corporate responsibility issue is.

The arguments put forward by Etzioni (1988, 1991) and others (for example, Rokeach, 1973) and the findings from Agle et al. (1999), Egri et al. (2004) and Mercer (2003) reinforce three key points. The first is that values do appear to have a role to play in shareholders' share-buying decisions. The second is that shareholders have self-oriented values as well as society-oriented values. The third is that, compared with the number of studies on the values of managers and consumers, there really is not much known about the values of individual shareholders and virtually no attempt has been made to investigate shareholders' perceptions of corporate responsibility in light of the values they hold. Therefore, rather than simply accepting that shareholders are rational self-interested beings whose only concern is to maximise profits, we need to delve deeper, finding out more about their values and their attitudes towards corporate responsibility that eventually influence their investment decisions.

The Shareholders' Values Inquiry

In comparison with the substantial number of studies relating to the values of managers and consumers[6], it is surprising to find that only one study – Ryan (1994)

6 There have been many empirical studies examining the values of managers and consumers, and their effect on decision making (see for example Allen, Ng and Wilson, 2002; Connor and Becker, 2003; England, 1967, 1975; Guth and Tagiuri, 1965; Homer and

– has been made from the perspective of shareholders. Ryan investigated whether an agency gap exists between executives and individual shareholders by exploring whether both groups expect their organisational goals should be pursued within moral constraints, represented by personal values and virtues. The centre of Ryan's inquiry is from the standpoint of executives' decision making, hence shareholders were asked to rank and rate the values and virtues they believe are appropriate for their company's executives. In other words, the values that shareholders nominate as important are those they believe executives should hold, rather than those they believe to be ideal for themselves. I believe that to better understand shareholders' share-buying behaviour, the values of shareholders need to be captured in two different ways and this is the path that I chose to follow.

The first step was to find out the values that motivate and guide shareholders – not only in their lives, but also when they make share-buying decisions. The second was to discover the values, in terms of attributes or qualities that shareholders expect company directors should hold and which equally influence investment decision making. These two ways of discovering the values of shareholders formed the first two of the three strands of my inquiry. I identify them as 'shareholders' values' and 'qualities of directors'. The discovery of shareholders' attitudes to corporate responsibility forms the third strand of inquiry.

Based on the theoretical standpoint that values underlie attitudinal processes and impact on our choice of actions (Connor and Becker, 1994; Kilby, 1993), I postulate that there is a link between individual shareholders' values and their perceptions of corporate responsibility. Accordingly, my aim from here is to shed light on this basic question:

> What is the interrelationship between individual shareholders' values and their perceptions of corporate responsibility when making share-buying decisions?

Two fundamental decisions were made at the start of my investigation. The first was that the individual shareholders under study had to be direct share investors and the second was that the investigation be undertaken in New Zealand. The reason for excluding individual shareholders who invest solely in unit trusts (mutual funds) is that these small investors have no control over the selection of the companies they invest in. Indirect owners of stock do not usually know what stock they hold (Mitchell, 2001). Since this inquiry was about how share investors relate to their values when they select companies whose shares they buy, it was therefore important that only direct share owners contributed to the investigation.

The methodology adopted for this inquiry was the principal reason why the research was undertaken in New Zealand. New Zealand has a small, yet diverse population. Logistically it was an ideal research venue, offering easy access to a representative community of shareholders with diverse backgrounds and

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Kahle, 1988; Lawrence and Collins 2004; Madrigal and Kahle, 1994; Posner and Schmidt, 1984, 1992; Sikula, 1973; Steenhaut and Kenhove, 2006).

cultural profiles yet with a similar demographic profile to shareholders in other countries. I had, as it were, a fair representation of the world's small shareholders in microcosm.

The characteristics of the participating shareholders in this inquiry are quite similar to those of shareholders in different countries. A majority of the participants are over 45 years old and well educated, and close to 59 per cent of the shareholders hold either tertiary or professional qualifications[7].

Though the methodology adopted for the inquiry is detailed in Appendix I, it would be useful to briefly describe here the processes employed in data collection. The investigation was conducted in two phases. Phase One, which was qualitatively based, employed in-depth interviews with 20 individual shareholders from five different organisations to establish the contents of the three strands of the inquiry – shareholders' own values, their desired qualities of directors, and corporate responsibility from the standpoint of how stakeholders should be looked after. Phase Two – a mail questionnaire survey – tested what I discovered from the small group of 20 shareholders on a stratified random sample of 1 370 shareholders which drew 438 responses.

The two phases were closely linked. Phase One had an exploratory function and Phase Two played a confirmatory role by testing the contents of the three strands of shareholders' perceptions which arose from Phase One. At the same time, the qualitative approach complemented the subsequent quantitative survey in that it provided a richness of data that could not be achieved through use of statistics solely.

The next two chapters set the scene for how shareholders' values, the qualities of directors desired by shareholders, and shareholders' CSR concerns were investigated. The findings of each of the three strands of the inquiry are presented in Chapters 4, 5 and 6. Chapter 7 describes how factor analysis was used to merge items arising from the three strands of investigation which threw up eight dimensions showing the range of interrelationships between shareholders' values, the qualities of directors and shareholders' corporate responsibility attitudes. Chapter 8 reports the impact of values on shareholders' share-buying decisions. Chapter 9 debunks the widely-held stereotypical view of ordinary shareholders as rational, purely self-interested profit maximisers. Chapter 10 examines world-wide trends and developments aimed at fostering individual share-ownership, thus expanding the role small shareholders play in the push in western countries for greater CSR.

7 Detailed demographics of the participants can be found in Appendix I.

Chapter 2
Values for Oneself and Values for Others

Very often we tend to assume the values we hold are the moral values that guide our conduct of behaviour. In fact our values can be classified into two main types – one being others-oriented and the other being self-oriented. Moral values belong in the former group. In order to gain a working insight into the values of shareholders, we need to examine both their self- and others-oriented values. A review of the seminal work of Milton Rokeach, who made significant contributions to human values studies, together with studies conducted by other researchers such as Shalom Schwartz, helps to lay a foundation for how shareholders' values should be investigated.

This chapter comprises four main parts. It first discusses how the term 'values' is defined for the purpose of studying the values of shareholders. This is then followed by an examination of how values are classified. The second part identifies two common problems researchers face in studying human values. One is how to best determine the methods to be used in measuring values, and the other is how to derive a comprehensive list of values to study. The third part of the chapter reviews major values survey instruments to lay a foundation for how shareholders' values should be explored. The final part of the chapter discusses the paradox that the values desired in oneself are often different from those desired in others.

What Are Values?

The term 'values' can be applied in two ways: to the values that people are said to have, or to the values that objects are said to have (Rokeach, 1973). Here we will focus on the former usage and investigate the values that shareholders hold and the values that shareholders expect company directors to exhibit.

Defining Values

Though there are many definitions of human values, most of them are of a similar construct: values are conceptions of the desirable (Agle and Caldwell, 1999). Anthropologist Clyde Kluckhohn (1951: 395) defines a value as 'a conception, explicit or implicit, distinctive of an individual, or characteristic of a group, of the desirable which influences the selection from available modes, means, and ends of action'. Sociologist Robin Williams (1970: 442) defines values as 'those *conceptions of desirable states of affairs* that are utilized in selective conduct as *criteria* for preference or choice or as *justifications* for proposed or actual behaviour' [original emphasis]. Social-psychologist Milton Rokeach (1973: 5) states:

> [A] person has a *value* and a *value system*. A *value* is an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence. A *value system* is an enduring organization of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance.

Connor and Becker (1994: 71), based on the views of Kluckhohn, Rokeach and Williams, identify values as '(abstract) desirable modes of conduct or end states of existence – with the notion of desirability referring to the exercise of choice'. Schwartz (1994: 21) in his study on the motivational types of values, defines values as 'desirable, transsituational goals, varying in importance, that serve as guiding principles in the life of a person'. More recently, Schwartz and Bardi (2001) added that the crucial content aspect that distinguishes among values is the type of motivational goal they express.

My summation of all these definitions is that values serve as guiding principles, and at the same time, they have a strong motivational component in them. Collective terms used to describe values differ among authors. Rokeach (1973) calls them 'enduring beliefs'; for Kluckhohn (1951) and Williams (1970) they are 'conceptions'; and they are 'transsituational goals' according to Schwartz (1994). After considering these terms, I prefer to describe values as 'abstract ideals'[1] because 'ideal' as 'an ultimate object or aim' as defined in the *New Penguin English Dictionary* (2000: 695) infers both guiding and motivational functions. Accordingly, my definition of values is: 'A person's abstract ideals, varying in importance, that guide and motivate their choice of actions.'

There are four elements that form my definition of values. The first is the 'abstract ideals' which has two components. One is the ultimate goals in life[2] that shareholders strive for. I try to avoid the terms 'terminal values' and 'end-states of existence' prescribed by Rokeach (1973) which seem to have an unpleasant and unnecessary connotation with death. 'Ultimate goals in life' conveys a more positive – even motivational – feeling. I will refer to it as 'motivational values' in this book. The second component of the abstract ideals relates to the conduct of behaviour shareholders seek for themselves. This will be referred to as 'guiding values'. What should be understood about ideals is that they are abstract and

1 In fact, this term was used by Rokeach (1970: 124) in an early description of values.

2 At times Rokeach (1973: 14) describes terminal values as supergoals or ultimate goals and says 'we seem to be forever doomed to strive for these ultimate goals without quite ever reaching them.'

considered as values a person tends to take for granted, unless they are questioned or challenged (Guth and Tagiuri, 1965).

The second element, ‘varying in importance’, recognises that we have value priorities or there is a hierarchy existing within our system of values. The degree of influence a value has and whether it is followed by action depends on its intensity or the strength of the person’s conviction of the value (Kilby, 1993).

Rohan (2000: 262) stresses the use of the term ‘value priorities’ in her description of the strength of values and points out ‘the relative importance people place on each value type reflects their choices about what they are prepared to lose a little of to gain a little more of something else’. Therefore ‘varying in importance’ means that values within a value system are weighed one against the other or are ordered by their relative importance, and, consequently, to greater or lesser extents influence the choices we make and the attitudes we hold.

The third element, ‘guide and motivate’, affirms the roles that values play in our lives. Values can be seen as the ‘searchlights’ (Danner, 2002) that lead us to where we want to go; or the ‘map or blueprint’ (Rokeach, 1973) that guide us on our way.

The last element, ‘the choice of action’, refers in this case to the share-buying decision situation where shareholders decide what companies they want to invest in.

In essence, shareholders’ values are the abstract ideals that motivate and guide them. Ultimate goals in life are motivational values, while ideal behaviours are guiding values. Though each of us has a comprehensive system of values, in any given situation we may activate only a portion of our total value system. The system has been likened to a map or architect’s blueprint where only that part of the map or blueprint that is immediately relevant is consulted and the rest is ignored for the moment (Rokeach, 1973). For the individual shareholder in a share-buying situation, it means only those values relevant to investment decision-making are called upon at that time and their overall influence depends on the strength and intensity of the dominant value. Accordingly, my first strand of inquiry on ‘shareholders’ values’ was to discover the motivational and guiding values that apply to shareholders when they make share-buying decisions.

Classifying Values

In his universal system of human values, Rokeach (1973) states that the total number of values is relatively small and in the 36 values he nominates there is an equal split between terminal and instrumental values (refer to Table 2.1). However, Schwartz (1992) finds in his study that there is little support for the idea that the terminal-instrumental distinction is a meaningful basis on which people organise their values. Nonetheless, Rokeach’s values structure provides a useful foundation in understanding the different classifications of values.

Rokeach (1973) distinguishes between terminal and instrumental values. Terminal values are ultimate goals that may be self-centred or society-centred,

Table 2.1 Terminal values and instrumental values

Source: based on Rokeach (1973: 28)

Terminal Values	Classification*	Instrumental values	Classification*
A comfortable life (a prosperous life)	P	Ambitious (hard-working, aspiring)	C
An exciting life (a stimulating, active life)	P	Broadminded (open-minded)	C
A sense of accomplishment (lasting contribution)	P	Capable (competent, effective)	C
A world at peace (free of war and conflict)	S	Cheerful (light-hearted, joyful)	M
A world of beauty (beauty of nature and the arts)	S	Clean (neat, tidy)	M
Equality (brotherhood, equal opportunity for all)	S	Courageous (standing up for your beliefs)	M
Family security (taking care of loved ones)	P	Forgiving (willing to pardon others)	M
Freedom (independence, free choice)	P	Helpful (working for the welfare of others)	M
Happiness (contentedness)	P	Honest (sincere, truthful)	M
Inner harmony (freedom from inner conflict)	P	Imaginative (daring, creative)	C
Mature love (sexual and spiritual intimacy)	P	Independent (self-reliant, self-sufficient)	C
National security (protection from attack)	S	Intellectual (intelligent, reflective)	C
Pleasure (an enjoyable, leisurely life)	P	Logical (consistent, rational)	C
Salvation (saved, eternal life)	P	Loving (affectionate, tender)	M
Self-respect (self-esteem)	P	Obedient (dutiful, respectful)	M
Social recognition (respect, admiration)	P	Polite (courteous, well-mannered)	M
True friendship (close companionship)	P	Responsible (dependable, reliable)	C
Wisdom (a mature understanding of life)	P	Self-controlled (restrained, self-disciplined)	Neither

* Classification by Weber (1990)
P = Personal; S = Social; C = Competence; M = Moral

intrapersonal or interpersonal in focus. Instrumental values are standards that guide conduct of behaviour and consist of moral values and competence values. Moral values have an interpersonal focus which, when violated, arouses pangs of conscience or feelings of guilt for wrongdoing. On the other hand, competence values have a personal focus. Their violation leads to feelings of shame about personal inadequacy instead of the feeling of guilt.

Though Rokeach categorises values into personal, social, moral and competence components, he seems to be a bit vague in classifying each of the values into their sub-categories. In a study of the value orientations of American managers, Weber (1990) sub-categorised each terminal value as either personal or social, and each instrumental value in terms of competence or morals. As can be seen in the classification column in Table 2.1, Weber's results support Rokeach's conceptualisation of the types of values.

Other researchers also empirically tested the structure of the values nominated by Rokeach (1973). Based on a varimax factor analysis of Rokeach's 36 values, Munson and Posner (1980) identify six terminal factors (social harmony, personal gratification, self-actualisation, security, love and affection, and personal contentedness) and four instrumental factors (competence, compassion, sociality, integrity). They found that there is negligible overlap between the terminal and instrumental factors. Of the six terminal factors, 'social harmony' is related to social interest and is described as efforts devoted to maintaining a tranquil and harmonious social environment. The remaining five factors tend to be more related to individualistic interest than social interest.

Schwartz and Bilsky (1987) group the distinctions among the 36 values into seven motivational domains. Their 'enjoyment', 'achievement' and 'self-direction' domains largely serve individualistic interest, whereas 'restrictive-conformity' and 'prosocial values' serve collectivist interests. The remaining two domains – 'maturity' and 'security' – serve both interests.

Since the classification of Rokeach's 36 values into seven motivational domains by Schwartz and Bilsky (1987), Schwartz (1992, 1994) has modified Rokeach's list and derived a set of 56 specified values which are grouped under ten motivationally distinct value types. Included in the ten value types are five that serve primarily individualistic interests (power, achievement, hedonism, stimulation, self-direction) and three that serve primarily collective interests (benevolence, tradition, conformity). The remaining two (universalism and security) serve both interests (Schwartz, 1992). Furthermore, these ten value types can be viewed in two bipolar dimensions.[3]

The first dimension is 'openness to change' (emphasis on own independent thought and action and favouring change) which is in opposition to 'conservation' (emphasis on submissive self-restriction, preservation of traditional practices and protection of stability). The second dimension contrasts 'self-enhancement' values that emphasise the pursuit of one's own relative success and dominance over others

3 Each of the two dimensions are themselves bipolar.

with 'self-transcendence' values that emphasise both the acceptance of others as equals and concern for their welfare. Self-enhancement values are represented by the motivational goals of 'power' and 'achievement'. Self-transcendence values are found in the 'universalism' and 'benevolence' goals (Schwartz, 1994). The second dimension is of direct relevance to studying shareholders' values because it shows that human nature is more complex than the self-interest *Homo Economicus* represents and people do have others-regarding values.

The classification of values into their relevant categories (Weber, 1990), factors (Munson and Posner, 1980), domains (Schwartz and Bilsky, 1987) or goal types (Schwartz, 1992, 1994) has a common thread. This can be described thus: within one's value system, there are values that are primarily oriented towards oneself, and some that are primarily oriented towards others. For instance, *a comfortable life, wealth, social recognition, successful* and *capable* are personal-based (self-oriented) values; and *a world at peace, a world of beauty, equality, protecting the environment* and *honesty* are society-based (others-oriented) values[4]. Any investigation of shareholders' values, therefore, should not be based merely on a presumption that they only have self-oriented values which serve mainly to motivate them to strive for economic satisfaction through profit maximisation. Certainly investing for financial return is the primary consideration for ordinary shareholders, but this is only part of the picture. We need to discover the other values they hold, such as the ones which are oriented towards others. In this way we can gain a holistic picture or understanding of what motivates and guides individual shareholders when they make share-buying decisions.

Hofstede (1980, 2001) analyses further the bipolar dimensions of the values that exist within us. He says most people simultaneously hold several conflicting values. The conflicts or tensions that exist between self-oriented and others-oriented values can be explained by Kuran's (1995) 'divided self' and Etzioni's (1988) '*I and We*' paradigm. The divided self is 'a self with multiple, possibly competing, inner needs' (Kuran, 1995: 43). In the '*I and We*' paradigm, individuals experience perpetual inner tension generated by conflict between one part of the self that wants to pursue selfish interests and another part that wants to pursue interests that are for the common good of society (Etzioni, 1988). Therefore, shareholders, as individuals, can expect to experience such inner turmoil: at times the self-interest side wins, at other times it is the others-oriented side that does so.

The classification of values into self-oriented or others-oriented types has a strong bearing on the structuring of shareholders' values. The work of Schwartz (1992, 1994) suggests that there is a blurring of the boundary between terminal values and instrumental values because they both express various types of motivational goals. However, I believe that there is a need to separate motivational values from guiding values because they play different roles in shareholders' lives. As discussed earlier in the formulation of the values definition, motivational values are ultimate goals in life that a person strives for, and guiding values are the

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4 These values are nominated in Rokeach (1973) and/or Schwartz (1992, 1994).

desired conduct of behaviour. This point is illustrated by Lewin (1952) who uses the value of fairness as an example. He states that fairness is not a goal because an individual does not try to reach fairness, but fairness guides one's behaviour.

In summary, shareholders' values relevant to this inquiry are both motivational and guiding, and can be classified as either self-oriented or others-oriented. This leads to the next part of the chapter which discusses how values are measured, and the two inherent problems associated with the Rokeach Value Survey.

Measuring Values

The Rokeach Value Survey (RVS), though a popular instrument for measuring human values, has been subjected to two main criticisms. One concerns the use of the ranking method of measuring values; critics say rating is a better method. The other is about the representativeness and comprehensiveness of the values items used in the RVS.

Ranking versus Rating

The use of ranking or rating methods to measure values has been subjected to wide debate in the past three decades. The argument centres on whether ranking or rating is a better method for measuring values. On one side are supporters of the ranking method (Miethe, 1985; Rokeach, 1973; Rokeach and Ball-Rokeach, 1989). On the other side are proponents of the rating scale (Hague, 1993; Kitwood and Smithers, 1975; Munson and Posner, 1980; Ng, 1982; Weber, 1990). Between are those who say that the choice is not clear cut, and that the method used depends on the purpose of the theoretical inquiry (Agle and Caldwell, 1999; Alwin and Krosnick, 1985).

The problem with the rank-order scale used in the RVS is on the 'ipsativity' of the measurement. Data generated from rank ordering is non-independent – ipsative. Each score for an individual is dependent on their own scores for other variables, but is independent of, and not comparable with, the scores of other individuals (Hicks, 1970). Apart from awkwardness in statistically analysing the data (Braithwaite and Scott, 1991; Munson and Posner, 1980), some opponents of the ranking scale (Kitwood and Smithers, 1975; Ng, 1982) argue that the intensity of the values held by individuals or groups cannot be measured and as a result the data cannot be meaningfully compared. Furthermore, Ng (1982: 170) points out that a value may be ranked at the top by two individuals who may attach different degrees of importance to that value. He says that to one individual, 'freedom' as a value may command paramount importance, but to the other, freedom is not all that important, perhaps because he/she has more important values in mind which are not included in the RVS. And, 'to infer that the two respondents assign the same importance to freedom would be misleading'.

Some researchers comment on the difficulty of ranking each of 18 terminal values and 18 instrumental values all at one time (Hague 1993; Munson and Posner, 1980) and some describe it as cumbersome (Munson and McIntyre, 1979). According to Miller (1956), most people's information processing capacity is limited by the maximum number of chunks of information a human mind can hold simultaneously, which, he nominates as the 'magical' number seven, plus or minus two. Hague (1993) tested the task of ordering values with 64 students at the University of Alberta. The feedback from the students was that it is difficult to juggle 18 variables all at one time. Hague further observed that while the participants found the top three and the bottom three values were usually quite distinct, the remaining 12 values formed a kind of 'middle muddle' with little or no clear distinction between them. His conclusion was that it is difficult to rank those values that do not stand out as either very important or unimportant and thus the result is compromised.

Proponents of the rating method (Kitwood and Smithers, 1975; Munson and Posner, 1980; Ng, 1982) say that it is superior and a better alternative to the ranking method. The reasons are: rating eliminates ipsativity (Kitwood and Smithers, 1975), the absolute differences between values can be captured when values are rated independently (Meglino and Ravlin, 1998) and it enables more sophisticated analytical investigation (Munson and Posner, 1980). Strong supporters of the rating method such as Kitwood and Smithers (1975: 178) say that a questionnaire method of measuring values should be non-ipsative. The cross-cultural values survey instrument designed by Schwartz (1992, 1994) is an example that employs the rating method.

The counter-arguments from advocates of the ranking method are: ranking scale provides a level of precision to data which is superior to the rating scale (Alwin and Krosnick, 1985; Miethe, 1985) and reflects the mental process humans undergo naturally in assessing the importance of each value in relation to one another rather than each in isolation (Rokeach, 1973; Rokeach and Ball-Rokeach, 1989). The arguments from the ranking camp are supported by the results of Ravlin and Meglino (1987) who conducted a study with 103 undergraduates using four alternative measurements – rank order, point-assignment, forced-choice and the Likert scale measure – on the importance of four work-related values in decision making. Their finding was that the rank-order measure performed the closest to predictions in its relation with cognitive hierarchical ordering.

The superiority of any one method over the other in values measurement is not clear cut and each has it merits. The ranking procedure – the forced choice – reflects real life situations and, in the words of Rokeach (1985: 162), 'life is ipsative'. On the other hand, the rating method overcomes the ipsative nature of the ranking method; the intensity of values held by individuals can be measured and compared and it also allows for more sophisticated statistical analysis.

Given the strengths and weaknesses of both the ranking and rating methods, Ryan (1994: 61–65), in her study of personal values, virtues and organisational goals of executives and individual shareholders, offers an innovative solution by accommodating both methods in one single instrument. Instead of requesting respondents to list items in an artificial 1–10 order for each of ten organisational goals, personal values and virtues, Ryan derived a technique of asking respondents to order each set of the ten items into four 'tiers'. Participants (executives and shareholders) were first asked to rank each of ten organisational goals, personal values and virtues. After ranking the three sets of items, participants then transferred the top three items in each of the three hierarchies into a fourth, integrated, hierarchy. A rating procedure was also included in the questionnaire. After performing each ranking operation, respondents were asked to go back to each of the hierarchies and distribute between 0 and 100 points to the items in terms of their relative importance. The criterion was that the total points in any given hierarchy should be 100.

Though the instrument designed by Ryan has the merit of using both the ranking and rating scales, its complexity was the major factor against its adoption for this inquiry. I believed the shareholder participants in this inquiry would be discouraged from completing such complicated tasks. My alternative was to adopt the method designed by Kahle and Kennedy (1989) in their study of consumer values and attitudes. The method[5] is simpler than Ryan's in that it first asks the respondents to rate all items and then isolate the one item that is most important to them.

Representativeness of Values Items

A number of authors (Gibbins and Walker, 1993; Kitwood and Smithers, 1975; McDonald and Gandz, 1991; Ng, 1982) express concern about Rokeach's subjectivity in identifying the value items and the number of values to be included[6]. Rokeach (1973: 11) himself acknowledged that 'on *intuitive* [italics added] grounds, it seems evident that there are just so many end-states to strive for and just so many modes of behavior that are instrumental to their attainment'. Rokeach's reference to intuition has often been cited by some of his critics (for example, McDonald and Gandz, 1991).

Kitwood and Smithers (1975: 177) ask why some of the values that they see as fundamental are omitted from Rokeach's list: 'Among the terminal values

5 This is discussed in more detail under the section Questionnaire Design in Appendix I.

6 Rokeach (1973: 29–30) derived his 18 terminal values from a list of several hundred he compiled from a review of literature on values, his own experience and that of 30 psychology graduate students, and from interviews with about 100 adults in an American city. The value items that were judged to be semantically and empirically overlapping, too specific, or not representing end-states of existence, were eliminated. A different procedure was used in selecting the 18 instrumental values. The point of departure was a list of 555 personality-trait words derived by Anderson (1968). Among a large number of criteria in the elimination process was the need to avoid values that would be strongly linked with a social desirability response bias.

there is no mention of Truth, which must be reckoned to be one of the highest for those committed to science, philosophy, the arts, and religion; another omission is anything to do with health, vitality, and the full use of personal powers.' Ng (1982) questions why values like social justice, social power, equity and self-determination are not in the RVS. Nevertheless, Rokeach's values set finds some support from Braithwaite and Law (1985) who have studied the extent of representativeness of Rokeach's 36 items. They find that in general, the RVS is successful in covering the many and varied facets of the value domain, though neglecting the areas of basic human rights, and physical development and well-being.

The representativeness and comprehensiveness of any set of values to be used in a values survey is an important issue because of the possibility that the content validity of measurements of values can be put into doubt. Hofstede (1980: 22) expresses this concern:

> Inspection of a number of instruments designed to measure human values makes it clear that the universe of all human values is not defined and that each author has made his or her own *subjective* [italics added] selection from this unknown universe, with little consensus among authors.

The comments of critics of the RVS highlight two important points that have fundamental bearing on the method I employed in studying the values of shareholders. Firstly, as one of my objectives was to compare the intensity of different values held by the shareholders, a rating scale was selected as being the most appropriate measure. The method designed by Kahle and Kennedy (1989) is the best alternative: it is a simple task for respondents to first rate all items and then go back to the list and identify the one item that is the most important to them. Secondly, the issue of selection bias which may cast doubt on the validity of the survey instrument is too important to ignore. It is therefore useful to review how other researchers identified the value items used in their values studies.

Values Survey Instruments

There is one instrument – Personal Values Questionnaire (PVQ) – which England (1967)[7] designed for use in a business context to study the value system of

7 England (1967) designed the Personal Values Questionnaire (PVQ) in studying the value system of business managers which he later (1975) used in comparing the personal value systems of managers in USA, Japan, Korea, India and Australia. The PVQ consists of 66 concepts which England derived from a pool of 200 concepts selected from literature dealing with organisations, individuals and group behaviour, and ideological and philosophical concepts representing major belief systems. The questionnaire covers five categories: goals of business organisations, personal goals of individuals, groups of people, ideas associated with people and ideas about general topics. Criticisms by McDonald and

business managers. However, the PVQ has not been commonly adopted by other business researchers. In contrast, the RVS has been widely adopted in management and consumer values studies. In order to identify the value items specifically appropriate for shareholders in share-buying circumstances, I examined the RVS in conjunction with other survey instruments such as Schwartz (1992), Ryan (1994) and Kahle and Kennedy (1989).

During the past 30 years, the RVS has been adopted in management studies that assess the value orientations and value profiles of managers (for example, Sikula, 1973; Weber, 1990; Stackman et al., 2006) and in consumer and marketing studies measuring consumers' choices and attitudes (for example, Allen et al., 2002; Vinson et al., 1977). However, despite the popularity of RVS, it is not a one-size-fits-all list which is applicable under all circumstances. Some researchers build on the items listed in the RVS (for example, Allen et al., 2002; Schwartz, 1992, 1994) and some make modifications by eliminating items that are not relevant to their investigation (for example, Agle et al., 1999; Munson and McQuarrie, 1988; Ryan, 1994). Others, for example, Kahle and his colleagues (Kahle, 1983; see also Beatty et al., 1985; Kahle and Kennedy 1989) designed the List of Values (LOV) which relates to values that apply to people's daily life, and used it to measure consumer attitudes and behaviour. The LOV contains nine values which were 'culled' from Rokeach's list of 18 terminal values, Maslow's hierarchy of values and various other contemporaries in value research (Kahle and Kennedy, 1989).

Rather than narrowing the number of values to a smaller set as in the case of Kahle and his colleagues, Schwartz (1992) built on Rokeach's list. Of the 56 specific values he selected from the RVS and survey instruments developed in other countries, 21 are identical to those in the Rokeach list. The list of values identified by Schwartz is not restricted to cross-cultural studies. For instance, Mercer (2003) adopted Schwartz's instrument in his study on the influence of values on consumers' perceptions of corporate social responsibility (CSR).

Another example of instruments that build on the RVS was that used by Allen et al. (2002) in their study on the associations between consumers' values and their evaluative attitude towards their choice of automobiles and sunglasses. Their questionnaires include four other values – social justice, equity, social power and self-determination – which Ng (1982) argues should be in the RVS.

Some researchers prefer to modify the RVS and select items that they consider relevant to the situation under study. For instance, Munson and McQuarrie (1988: 382) created a shortened version of the RVS for use in consumer research. Based on findings from several studies, they noted: 'Many of the individual value items in the RVS seem *a priori* to be largely irrelevant to consumption behaviour.' Agle et al. (1999) who investigated the values of CEOs said they selected seven items that relate to self- versus others-regarding values from the Rokeach (1972) instrument. Ryan (1994), who examined the values and virtues of executives and

Gandz (1991: 221) of the PVQ include that, operationally, its structure is 'unwieldy' and some items do not in and of themselves constitute values (for example, money, skills).

individual shareholders, selected ten values and ten 'virtues' from Rokeach, with some modification (see Table 2.2).

Kahle (1983) and his colleagues designed their LOV to measure consumers' attitudes and choice behaviour. The difference between the LOV and the instruments of Rokeach and Schwartz is that the LOV draws out the values that impact on one's 'daily' life. In comparison, Rokeach (1973) and Schwartz (1992, 1994) centre on a universal, cross-cultural value system that they see provides guiding principles in people's lives. Beatty et al. (1985) compare and contrast the LOV with RVS and (as shown in Table 2.3) the two values that are not found in the RVS are *self-fulfillment* and *sense of belonging*. The remaining seven items are very similar to the RVS.

The survey instruments discussed in this section reveal one thing which has an important bearing on the investigation of shareholders' values. Though Rokeach (1973) and Schwartz (1992) provide a useful list of values that guide a person's life, I have already discussed (see page 15) how only some values are triggered in any one situation; the rest stay in the background. For this reason, researchers such as Agle et al. (1999), Munson and McQuarrie (1988) and Ryan (1994) modified the RVS to suit the context of their studies. Having seen how modifications to the RVS can be made by selecting values that are deemed suitable, my concern was to isolate criteria that would deem a value to be relevant in share-buying circumstances. Simply put, what were the values that should be selected? Some values such as *mature love, true friendship, cheerful, clean, forgiving, loving, obedient* and *polite* from the Rokeach list, and others such as *devout, accepting my portion in life, honouring of parents and elders, reciprocation of favours* and *humble* from Schwartz are *a priori* not of relevance to individual shareholders when they consider buying shares. On the other hand, in this context, before the

Table 2.2 A comparison of Ryan's list of values with Rokeach's list

Terminal values		Instrumental values	
Ryan (1994)	**Rokeach (1973)**	**Ryan (1994)**	**Rokeach (1973)**
Equality for all	Equality	Ambitious	Ambitious
Family security	Family security	Competent	Capable
Happiness	Happiness	Courageous	Courageous
Personal prosperity	----	Forgiving	Forgiving
Physical safety	----	Helpful	Helpful
Pleasure	Pleasure	Honest	Honest
Political freedom	----	Independent	Independent
Self-respect	Self-respect	Productive	----
Social recognition	Social recognition	Rational	Logical
Wisdom	Wisdom	Responsible	Responsible

Table 2.3 A comparison of LOV with RVS

Beatty et al. (1985)	Rokeach (1973)
Warm relationships with others	True friendship
Self-respect	Self-respect
A sense of accomplishment	A sense of accomplishment
Fun and enjoyment in life	Pleasure
Self-fulfillment	-----
Being well respected	Social recognition
Security	Family security/National security/A comfortable life
Sense of belonging	-----
Excitement	An exciting life

researcher is the tough task of selecting those values that can be considered relevant without succumbing to subjectivity. Connor and Becker (1994: 71) make a strong stand against modification of the RVS to suit the objectives of the inquiry:

> [S]tudies have been reported using the Rokeach (1967) Value Survey (containing two sets of 18 values each) in which several value items were deleted on the grounds that they seemed prima facie to be not relevant …. Such departures from the standard form of an instrument have to cast doubt on the validity, and therefore meaning, of the findings.

The problem of subjective selection which casts doubt on the content validity of the instrument has also been highlighted by Hofstede (1980) and other authors (see pages 21–22). To overcome selection bias it was necessary to establish a list of values from source – that is, from the shareholders themselves, instead of drawing them from the literature. Studies such as McDonald and Gandz (1991) and Posner and Schmidt (1984) adopted this approach. Posner and Schmidt identified 15 modes of behaviour that apply to American managers by asking open-ended questions on the values they look for in superiors, colleagues and subordinates. McDonald and Gandz (1991) used in-depth interviews with people from within and outside of organisations to derive 21 of a total set of 24 shared values applicable to business, and then went a step further by comparing their list of values with those found in Rokeach (1973) and England (1967). Accordingly, in this inquiry I adopted the methods used by Posner and Schmidt, and McDonald and Gandz, identifying a list of important values common to most ordinary shareholders by conducting a series of interviews with 20 shareholders, then cross-checking it against the value items found in Rokeach (1973), Schwartz (1994), Kahle (1983) and Ryan (1994) to establish its comprehensiveness (refer to Chapter 4).

In this discussion on how values are studied and measured, and the major survey instruments used in studying the values of the subjects, I have identified three factors that have a fundamental bearing on my investigation of shareholders' values. The first is that though the values of individuals, managers and consumers are well researched, it seems that the important values common to most ordinary shareholders remain unknown. And, though Ryan (1994) explores the values of shareholders, her list is not comprehensive and is not readily adoptable. For instance, the values *a world of beauty* found in both Rokeach (1973) and Schwartz (1992, 1994) and *protecting the environment* (Schwartz, 1992, 1994) which *a priori* may have a connection to how ordinary shareholders perceive the importance of corporate environmental responsibility, are not included in Ryan's study (refer to Table 2.2). Furthermore, Braithwaite and Law (1985) caution against the reliance on literature searches, on previous questionnaires, or on the researchers' intuitions in searching for a useful set of values because they do not necessarily result in the identification of values that are meaningfully used by the population of interest.

The second factor is that, to counter the effect of selection bias of the values to be included in the survey instrument on individual shareholders, it is best to first establish a list of values common to all shareholders. I did this through in-depth interviews of my group of 20 New Zealand shareholders from five different organisations, and then tested it on a much larger group of shareholders. This procedure is highly recommended by Kilby (1993) who says that interview is the oldest and simplest method of learning a person's values.

Finally, the process of studying shareholders' values needs to be approached from a bipolar dimension where one pole nominates values that are primarily related to self-interest and the other pole nominates values that are primarily others-interested. In this way, the complexity of human nature from the standpoints of a divided self (Kuran, 1995) and the '*I and We*' paradigm (Etzioni, 1988) are taken into consideration. Hence, the discovery of the values that motivate and guide individual shareholders in their share-buying decisions forms the first strand of this inquiry. The next part of this chapter focuses on the second strand, which is the qualities, expressed as values, shareholders consider ideal for their directors.

Values Paradox

Rokeach (1973: 10) warns of the challenge in researching human values: that values represent the conceptions of the desirable, but the question that needs to be asked is: 'Desirable for whom? For himself? For others?' Often values desired for oneself are different from those desired in others. Testing the RVS with student participants, Hague (1993) found from their comments that there is a variety of loci (other than themselves) in which these values existed. This was demonstrated when some of his participants became concerned with whether they were ranking values as values they lived by or the values they looked for in others.

Hofstede (1980) describes a technique where instead of seeking descriptions of self-behaviour desired by his respondents, he asks them their perceptions of the behaviour that they desire of others: one's boss and one's colleagues. Posner and Schmidt (1984) employed a similar technique in their study of the values of American managers. They asked respondents what values they look for and admire in their superiors, colleagues and subordinates. Ryan (1994) asked individual shareholders to nominate the values and virtues that they believed were appropriate for their companies' executives[8].

In order to add another dimension to the understanding of shareholders' values, I have adopted an amalgam of the techniques used by Hofstede, Posner and Schmidt, and Ryan. In this inquiry I apply it from the standpoint of the ideal behaviour that shareholders look for in company directors. Information gained from individual shareholders' perceptions of ideal behaviour for their directors offers another insight into the value priorities of shareholders. One other advantage is that it identifies the qualities and attributes that shareholders want from the people who effectively act as their agents and run companies on their behalf. Hence, individual shareholders' ideal guiding values can be captured in two ways: the behaviour they set for themselves and the behaviour they feel is appropriate for their company directors. The latter forms the second strand of my investigation.

Conclusion

In contrast to the knowledge we have on the values of individuals, managers and consumers, we know little about the values of individual shareholders, apart from assuming that most of them are self-oriented. In fact, self-oriented values are only one component in a person's value system, according to Rokeach's (1973) argument which is supported by others (for example, Schwartz, 1992). We therefore need to examine the other values that are common to most ordinary shareholders by finding out what their own motivational and guiding values are, and the guiding values that they believe company directors should hold.

Investigation of the qualities that shareholders expect of their directors adds another insight to the guiding values of individual shareholders because, very often, the behaviour desired of oneself is different from that desired of others. Directors, as agents of their shareholders, *a priori* are expected to be honest and competent, but whether individual shareholders hold those as their own value priorities provides insight into the degree shareholders link their own desired behaviour to those with whom they entrust their money.

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8 More detail of Ryan's (1994) study in Chapter 1 (page 11).

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Chapter 3
Dealing with Stakeholders

A review of relevant studies of ordinary shareholders' attitudes towards corporate social responsibility (CSR) indicates that there is a tendency for researchers to derive a list of corporate responsibilities or practices from the literature and then incorporate them in a questionnaire survey. This chapter argues against such an approach. It points out that the corporate responsibility issues nominated in those survey-based studies cannot be exhaustive if any primary stakeholder group has been ignored.

In drawing the parameters of how shareholders' concerns about corporate behaviour should be explored, this chapter firstly examines the meaning of the term CSR and suggests that it is necessary in this context to consider corporate responsibility from the standpoint of a company's relationships with its stakeholders. Then it identifies the groups of stakeholders that should be included in this investigation. Lastly, it examines the issues nominated in five main studies on shareholders' attitudes to corporate responsibility and corporate behaviour. The conclusion is that in order to find out about shareholders' corporate responsibility concerns, it is more fruitful to derive a list directly from shareholders by asking them how they believe each stakeholder group – customers, employees, shareholders, suppliers, the environment and the community – should be treated by their companies.

The discussion in this chapter, together with that in Chapter 2, have a fundamental bearing on the qualitative and quantitative phases of this inquiry into shareholders' values, the qualities they expect of their directors and their attitudes to corporate responsibility[1].

What is Corporate Responsibility?

The term 'corporate responsibility' adopted in this inquiry is derived from the concept of CSR[2]. It is common for CSR to be referred to as corporate responsibility. For instance, Roper (2004) discusses corporate responsibility in New Zealand;

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1 Details of this methodology are found in Appendix I.

2 It is beyond the scope of this book to discuss other common terms such as corporate social responsiveness, corporate social performance and corporate citizenship. The importance of the CSR concept is emphasised by Carroll (1999) as serving as the base point, building block, or point-of-departure for other related concepts and themes, many of which embrace CSR-thinking and are quite compatible with it.

Maignan and Ferrell (2003) study the nature of corporate responsibility perceived by American, French and German consumers; the Organisation for Economic Co-operation and Development (OECD) has issued a publication titled *Corporate Responsibility: Private Initiatives and Public Goals* (2001), and a recent book is titled *Harvard Business Review on Corporate Responsibility* (2003).

This third strand of inquiry focuses on shareholders' attitudes to corporate responsibility and not on CSR itself. While I believe it is unnecessary to conduct any detailed review of CSR, it is nevertheless, important to present a representative sample of material in order to set a foundation on which an investigation of shareholders' concerns about corporate behaviour can be based. I will examine the definitional meaning of social responsibility, suggesting that it is more helpful to base shareholders' attitudes to corporate responsibility from the perspective of how they perceive stakeholders should be treated.

A number of authors comment on the vagueness of the CSR concept: it means different things to different people (Crowther and Rayman-Bacchus, 2004), a fuzzy concept (Jonker, 2003) and open to conflicting interpretations (Windsor, 2001). According to Clarkson (1995: 102), 'the confusion and misunderstanding about the definition and meaning of corporate social responsibility … is a direct result of the inclusive and vague meaning of the word *social*.' He said: 'It has become difficult, if not impossible, to define what is, or what is not a social issue.' Carroll (1979: 499) notes that social responsibility has been defined or conceptualised in a number of different ways and his suggestion is:

> For a definition of social responsibility to fully address the entire range of obligations business has to society, it must embody the *economic, legal, ethical* and *discretionary [philanthropic]*[3] categories of business performance.

In practice it is difficult to categorise corporate activities within purely economic, legal, ethical and philanthropic (discretionary) domains. The overlapping nature of the domains is highlighted in Schwartz and Carroll (2003). For example, the classification of a company's charity donations as a philanthropic responsibility is not clear cut. It can also be considered as a strategy to enhance a company's image to create economic benefits, thus satisfying the economic responsibility of a business. Monin and Edmiston (1999) point out that corporate philanthropy and corporate strategies have become very much interwoven; and practices are adopted to create benefits for both the recipient and donor. Also, environmental protection initiatives by businesses can be seen to overlap economic, legal and discretionary responsibilities. Therefore, rather than restricting corporate responsibility to Carroll's four categories of social responsibilities, I believe it is more appropriate to consider it from the standpoint of a company's relationships with its stakeholder groups.

There is an integration between CSR and the stakeholder approach to managing an organisation: 'Stakeholder management is the most substantive manifestation

3 'Discretionary' is referred to as 'philanthropic' in Carroll (1991).

of social responsibility.' (Jones, 1999: 5). From the stakeholders' perspective, social responsibility is a pre-requisite (Doukakis, 2004); managers can serve their shareholders only by fulfilling a wide-ranging set of responsibilities to all corporate constituents – that is, by exercising corporate social responsibility (Boatright, 1999). In his discussion on the Pyramid of Corporate Social Responsibility, Carroll (1991: 43) considers that there is a natural fit between the idea of CSR and an organisation's stakeholders. He further states:

> The word 'social' in CSR has always been vague and lacking in specific direction as to whom the corporation is responsible. The concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation. Thus, the stakeholder nomenclature puts 'names and faces' on the societal members who are most urgent to business, to whom it must be responsive.

It is therefore useful to conceptualise the term corporate responsibility from the standpoint of stakeholders. As pointed out in Caliyurt and Crowther (2004), the external environment within which a business operates has changed and continues to change, and there is a continuing shift away from a narrow focus on shareholders to a wider stakeholders-inclusive approach. They say the increasing power and concern of all stakeholders has led to an increasing demand for businesses to be accountable to them. The OECD's (2001) perspective is that corporate responsibility is expressed by the actions taken by businesses to nurture and enhance the symbiotic relationship between businesses and the societies in which they operate. Accordingly, shareholders' views of corporate responsibility are based on how they perceive stakeholders should be treated.

Who are the Stakeholders?

The survival of a business and, to a large extent, its success, depends on its stakeholder relationships: sustainable creation of shareholder value must be dependent on also meeting the needs of other stakeholders (Crowther, 2002); no firm can prosper without serving the needs of its stakeholders (Stead and Stead, 1996). This points to the need to identify who the stakeholders are. According to Freeman (1984: 46):

> A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives.

Similarly, Wheeler and Sillanpää (1997) define stakeholders as individuals and entities who may be affected by business, and who may, in turn, bring influence to bear upon it. Clarkson's (1995: 106) view of stakeholders is that they are 'persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future'. These definitions identify stakeholders from the human entities standpoint. Donaldson and Dunfee (1999) ask whether stakeholder status should be limited to 'persons'. Starik (1995: 214) argues that it is erroneous to exclude the non-human natural environment from the concept of stakeholder on the basis that it does not possess a political-economic voice. He says: 'Recognizing the natural environment as one or more stakeholders would elevate it to the level to which managerial attention can be directed' and which would allow an organisation to perceive a much wider and deeper scope in its external environment than otherwise.

From the moral responsibility viewpoint, DesJardins (1998) observes that the classical model of social responsibility denies that business has any direct environmental responsibility. However, the natural environment has been included by some authors as being an 'involuntary' (Crowther, 2004) or 'primary non-social' (Wheeler and Sillanpää, 1997) or 'external' (Carroll and Näsi, 1997) stakeholder. This inquiry follows the latter views and includes the environment as a stakeholder.

Stakeholders can be classified, according to their characteristics, as voluntary and involuntary, or primary and secondary, or internal and external groups. Table 3.1 shows examples of stakeholders nominated under each category. Crowther (2004: 74) suggests that voluntary stakeholders are those who choose to deal with an organisation, and involuntary stakeholders are those who do not choose to enter into – nor can they withdraw from – a relationship with the organisation. Clarkson (1995: 106–107) proposes this distinction between primary and secondary stakeholders:

> A *primary* stakeholder group is one without whose continuing participation the corporation cannot survive as a going concern …. *Secondary* stakeholder groups are defined as those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival.

Wheeler and Sillanpää (1997) further sub-divide primary stakeholders into social and non-social; and also place secondary stakeholders into social and non-social categories. In many respects, Wheeler and Sillanpää's list of primary social stakeholders is quite similar to Clarkson's.

Carroll and Näsi (1997) give examples of internal and external stakeholders. Internal stakeholders encompass such groups as employees, owners and managers. External stakeholders include consumers, competitors, government, social activist groups, the media, the natural environment and the community.

The common stakeholder groups found in Clarkson, Crowther, and Wheeler and Sillanpää are shareholders and investors, employees, consumers, suppliers and communities. The non-human natural environment is represented by the 'ecological environment' or simply 'natural environment' under the categories of involuntary, primary non-social and external stakeholders. They reinforce the arguments put forward by Starik (1995) and DesJardins (1998) that the non-human natural environment should be integrated into the concept of stakeholders.

Table 3.1 Identifying the stakeholders

Carroll and Näsi (1997)	**Crowther (2004)**	**Clarkson (1995)**	**Wheeler and Sillanpää (1997)**
Internal	*Voluntary*	*Primary*	*Primary social*
Employees	Shareholders,	Shareholders, investors	Shareholders and investors
Owners	investors	Employees	Employees and managers
Managers	Employees	Customers	Customers
	Managers	Suppliers	Local communities
External	Customers	Governments	Suppliers and other business
Consumers	Suppliers	Communities	partners
Competitors			
Government	*Involuntary*	*Secondary*	*Primary non-social*
Social activist groups	Individuals	Media	The natural environment
The media	Communities	Special interest groups	Future generations
Natural environment	Ecological		Non-human species
The community	environments		
	Future generations		*Secondary social*
			Government and regulators
			Civic institutions
			Social pressure groups
			Media and academic
			commentators
			Trade bodies
			Competitors
			Secondary non-social
			Environmental pressure
			groups
			Animal welfare organisations

The air, water, land and ecosystems within which the organisation operates need to be considered by management in its decision-making process (Starik, 1995); and while businesses are free to pursue profits within the rules of the game, the rules must include the obligation to leave natural eco-systems no worse off in the process (DesJardins, 1998).

As noted in Table 3.1 there are many categories of stakeholders, but for the purposes of this inquiry, the six main stakeholder groups are shareholders, employees, customers, suppliers, the community and the environment.

The next section examines the five main shareholder studies (Epstein, 1992; Ryan, 1994/Ryan and Gist, 1995; Muller, 2001; Tippet, 1998, 2000; Hanson and

Tranter, 2006) that provide some insight into shareholders' corporate responsibility concerns.

Shareholders' attitudes to corporate responsibility

An investigation of empirical studies of ordinary shareholders shows that the majority of the work has been carried out in three main areas: the usefulness of financial statements and company annual reports to individual shareholders (for example, Anderson and Epstein, 1996; Chang and Most, 1985; Epstein and Pava, 1993; Lee and Tweedie, 1975, 1990); attitudes of shareholders toward corporate political activity (for example, Baysinger et al., 1985); and the investment strategies and the risk attitudes of small investors (for example, De Bondt, 1998; Lewellen et al., 1977). My investigation showed that the amount of empirical research on the corporate responsibility attitudes of ordinary shareholders is very limited. However, the five studies nominated provide some indication of issues (see Table 3.2) that individual shareholders believe to be important.

Epstein (1992) asked American ordinary shareholders to rank how they believe corporate funds should be allocated. Ryan (1994)/Ryan and Gist (1995) studied organisational goals from the standpoints of both the executives and individual shareholders of two American companies. In many respects the concepts of organisational goals they select are quite similar to corporate responsibility. Tippet (1998, 2000) investigated how Australian ordinary shareholders rank the importance of 18 ethical and 13 corporate governance issues. Muller (2001) examined Australian shareholders to discover the responsibility priorities that they think a company should have. In a more recent study, Hanson and Tranter (2006) examined the six scenarios in which Australian share owners would most likely sell their shares. Table 3.2 sets out the corporate responsibility and behavioural issues identified in those five studies.

Review of those five studies highlights three important points. Firstly, even within the generic group of ordinary shareholders, differences exist in terms of what individuals perceive as the top priority in corporate responsibility. Shareholders in the Epstein (1992) study indicate that protecting the environment is most important, but other shareholders in Ryan (1994) and Muller (2001) consider it as least important. Secondly, issues drawn from these studies do not represent a comprehensive list of corporate responsibilities – how companies should treat their suppliers is not considered at all. Lastly, the identification of responsibility issues based purely on a review of the literature does not truly fulfil the needs of this inquiry because it is the shareholders' views that form the basis of my inquiry. Similarly to the identification of shareholders' values (discussed in Chapter 2), I believe the list of corporate responsibility issues considered by this inquiry should be drawn from individual shareholders rather than from the literature.

Table 3.2 Shareholders' concerns (listed in order of importance)

Epstein (1992) (USA)

Clean up their plants and stop environmental pollution
Improve safety of its products
Pay higher dividends
Improve employee benefits
Monitor ethical conduct by co. personnel
Establish child care centres for employee use
Increase involvement in solving community problems
Contribute more money to charity
Improve programmes to benefit women
Improve programmes to benefit racial minorities

Ryan (1994)/ Ryan and Gist (1995) (USA)	Mean ranking	Mean rating
Long-term profit	1	1
Customer satisfaction	2	2
Organisational survival	3	3
High productivity	4	5
Organisational growth	5	6
Employee well-being	5	4
Organisational reputation	7	8
Benefit to society	8	7
Environmental responsibility	9	9
Short-term profit	10	10

Muller (2001) (Australia)

Being a fair employer
Making money for its shareholders
Having a safe workplace
Contributing to community well-being
Protecting the environment

Tippet (1998, 2000) (Australia)

Ethical issues
Professional/good business practice
Promotion of Australian-made
Youth employment
Equitable employee relations
Excessive government regulation
Promotion of recycling
Excessive/misleading advertising
Equal opportunity
Cheap labour exploitation
Manufacture/sale of tobacco
Housing loan interest rates
Gambling
Clear-fell logging
Defence involvement
Manufacture/sale of alcohol
Land speculation
Uranium mining
Aboriginal rights

Governance issues
Excessive directors' remuneration
Related party transactions
Executive remuneration and company earnings
Directors buy shares on unduly favourable terms
Directors' employment and poor company performance
Too few independent directors
Lack of independence of auditors
Share of profits to dividends
Loose repayment of directors' loans
Failure to provide understandable information
Excessive use of outside consultants
Failure to conduct social/environmental audit
Late payment of dividends

Hanson and Tranter (2006) (Australia)

Used child labour
Caused a major environmental problem
Invested in genetically modified crops or food
Gave large bonuses to its executives
Produced military weapons
Been prosecuted for racial discrimination

Individual shareholders have different ideas about the responsibilities corporations need to address as a matter of course; there is no concurrence among them as to what they consider as the top corporate priority. Shareholders in Epstein (1992) put environmental concerns at the top of the list, ahead of getting paid a higher dividend, and a majority of share owners in Hanson and Tranter (2006) indicate that they would sell their shares in companies that cause harm to the environment. In contrast, the shareholders in Ryan (1994), in Tippet (2000) and in Muller (2001) are far less concerned with their companies' environmental responsibility. The existence of a wide disparity between individual shareholders' perceptions of the importance of non-financial issues is thus obvious.

The responsibility issues gathered from the above studies do not constitute an exhaustive list because the responsibility of corporations to their suppliers – a core stakeholder group – has not been included. The items listed in Table 3.2 can generally be categorised into eight main areas – responsibilities toward employees, customers, shareholders, the community and the environment; types of businesses that investors avoid investing in; investors' attitudes towards irresponsible business behaviour; and promotion of human rights. By sorting the issues into their respective categories, it can be seen that there is a preponderance of attention paid to shareholders. Of the total 62 issues, 22 relate to the interests of shareholders; there are only four relating to customers and none refer to suppliers. As discussed in the previous section, suppliers form a core group of stakeholders, and shareholders' views on how they should be treated need to be sought. Suppliers are an important group of constituents within the stakeholder framework found in Freeman (1984), Clarkson (1995), Crowther (2004), Wheeler and Sillanpää (1997). Obviously, a business' responsibilities towards its suppliers are too important to be ignored and need to be explored.

Researchers such as Spiller (2000) and Davenport (2000) list corporate responsibility practices by their relevance to each stakeholder group. However, Spiller's 60 practices tend to overlap, and some of Davenport's principles appear to be too broad. For instance, under environmental responsibility, Spiller presents as three separate practices a materials policy of reduction, reuse and recycling; waste management; and energy conservation. All of these have a similar theme. Davenport identifies only one broad principle on investor commitment – that of striving for a competitive return on investment. Obviously, shareholders want more than just a competitive return. For instance, curbing excessive remuneration packages for management is an important issue that needs to be considered. This shows that in identifying a list of corporate responsibility issues from the shareholders, it is important that the descriptions of the issues should not overlap or become too broad. It is noted that some of the terms used in the shareholder attitudes studies by Ryan (1994), Muller (2001) and Tippet (2000) also have the problem of being too broad: for example, 'environmental responsibility', 'being a fair employer' and 'professional good business practice' are not specific enough to be useful in analysis of CSR.

In a more recent consumer study, Mercer (2003) used focus groups with consumers as participants to identify the stakeholder groups they consider as important, and also their perceptions of socially responsible business activities. The consumers identified six stakeholders groups – consumers, shareholders, employees, society at large (which covers both the community and the environment), suppliers and competitors – and a total of 37 socially responsible business practices. Following on from the focus groups in study one is a questionnaire survey of consumers. However, in this Mercer reduced the six stakeholder groups to four (employees, society at large, consumers and shareholders); and the number of responsible practices to 22. Mercer's methodologies employed in studying consumers' attitudes to corporate responsibility are quite similar to those used in this inquiry of shareholders. It would seem useful to discover if there is any difference between the attitudes of the two groups: shareholders versus consumers[4].

My review of the studies by Epstein (1992), Ryan (1994), Muller (2001) and Tippet (1998, 2000)[5], indicated that, rather than selecting the issues I thought important to shareholders, the issues needed to be identified from the source of my data – the individual shareholders. It is obvious from the comments of Tippet (1998), Ryan (1994)/Ryan and Gist (1995) that they selected their lists of relevant issues from the literature:

> Its [the questionnaire's] wide-ranging content of issues is influenced by Warrell (1992). (Tippet, 1998: 92)

> [T]he 10 organizational goals, 10 personal values, and 10 virtues … judged here to be most representative or most important for business applications, were selected from the Rokeach and England studies with some modification. (Ryan and Gist, 1995: 668)

Therefore, instead of imposing a set of corporate responsibilities on individual shareholders and asking them to rate their importance, I considered it much more fruitful to find out what issues were of concern by asking the shareholders directly. In light of the fact that this inquiry is based around the perceptions of a representative group of direct shareholders in New Zealand, this was the process I decided to use.

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4 Discussion found in Chapter 9 (page 148).

5 The study by Hanson and Tranter (2006) was published after the completion of my inquiry on shareholders. The inclusion of the results from Hanson and Tranter in my earlier discussion is to provide readers with another aspect on Australian shareholders' attitudes to CSR.

The studies by Epstein (1992), Ryan (1994), Muller (2001) and Tippet (1998, 2000) offer some insight into shareholders' attitudes to corporate responsibility but the issues drawn from their lists do not represent a complete picture. They do not throw any light on how shareholders believe that suppliers should be looked after. This will be addressed in my investigation into shareholders' attitudes toward how stakeholders should be treated which forms the third strand of my inquiry.

As discussed in Chapter 1, the findings of values studies conducted on managers and consumers (see pages 9–10) show that there is some connection between attitudes and underlying values: for example, the values that guide consumers' daily lives are associated with their nutrition attitudes (Homer and Kahle, 1988); there is a link between CEO values and corporate community performance (Agle et al., 1999); others-oriented consumers place a significantly greater importance on the well-being of society and employees as compared with those who are self-oriented (Mercer, 2003); managers who value universalism are more concerned with corporate environmental responsibility than those who are individualistic (Egri et al., 2004); personal values and beliefs of management is the key driver for a company's environmental and social practices (Lawrence and Collins, 2004). My summation of these studies is that there are some links between values and attitudes, and between the type of values (self-oriented or others-oriented) and the importance one places on certain aspects of corporate responsibility. However, there is not much known about how individual shareholders relate their values to their perceptions of corporate responsibility. This book reports from the standpoint of individual shareholders.

Conclusion

My main conclusion drawn from this review of the literature is that the three strands of my inquiry on shareholders' values, the qualities they expect of company directors and corporate responsibility issues – should come from the narratives of the shareholders themselves. A commendation by Agle and Caldwell (1999: 371) of the study by Ryan and Gist (1995) bears out this conclusion and has an important bearing on the methodology of my inquiry. They state:

> Their study assessed the values of shareholders by surveying the individual shareowners. Although this technique may seem obvious, *it was unique in that shareholders are often ascribed opinions and values derived from experts who do not own any stock* [italics added].

My aim was therefore not to impose any preconceived structure on the shareholders. The relevant values items, directors' qualities and corporate responsibility issues needed to – and did – emerge from the shareholders themselves.

Review of the relevant literature shed light on how I should plan my investigation. It seemed most appropriate to conduct this inquiry in two phases – one qualitatively based, the other quantitative. The objective of Phase One was to qualitatively establish a list of values, qualities of directors and corporate responsibility issues from the interviews with 20 ordinary shareholders from five different organisations. All of the items derived from the interviews were tested in Phase Two for their representativeness through use of the subsequent mail questionnaire survey. The in-depth interviews served an exploratory function; the questionnaire survey had the confirmatory function. The following three chapters discuss the findings of each of the three strands of my inquiry.

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Chapter 4
The First Strand: Shareholders' Values

> Honesty is the biggest one. I've never taken one dollar that I haven't believed I should have.
>
> 69-year-old male shareholder

> I hate to say this, financial security to me is very, very big.
>
> 32-year-old female shareholder

> For me, contributing to and building society is very important in whatever I do.
>
> 58-year-old female shareholder

> Being fair to people, acting in a moral way towards other people, not harming people.
>
> 69-year-old male shareholder

These statements are typical of shareholders' responses when they were asked in Phase One of this inquiry what their personal values are. They show that some shareholders are guided by honesty and fairness, and some are motivated by financial security and contribution to society. Phase Two sought to discover whether similar values are held by the shareholders who responded to the questionnaire survey. This chapter reports the results from the two phases which form the first strand of my inquiry into shareholders' values.

As this and the following chapters will be discussing the views and behaviour of the shareholders who participated in the two phases of my inquiry, it seems appropriate here to provide a brief description of the participants. The 20 individual shareholders interviewed represent a diverse range of occupations: banker, accountant, manager, consultants, architect, airline pilot, financial analyst, journalist, teacher, nurse and housewife. In order to be able to relate the narratives of the relevant participants in Phase One, each interviewee is identified by their occupation.

The demographic profiles of the participants in both phases are quite similar and in fact not far from the characteristics commonly found in shareholders in many countries: they tend to be in the older age groups (over 45 years old), and a majority of them have professional and/or tertiary qualifications.

Among the 20 interviewees, six were couples: the retired banker and housewife, tax accountant and young mother, and teacher and public nurse. Two couples own their shares jointly, while the other couple maintains separate share portfolios, and though each couple took part in the interview together, each person presented their own views and were therefore counted as individual shareholders. Interestingly, interviewing couples at the same time did not, in all three instances, seem to inhibit any of the participants from expressing their individual views. At times they were in accord, particularly about the basic values they held, but in expressing what their value priorities were there was considerable divergence between partners. For example the teacher and his wife, the public nurse, shared the same basic values, but differed in their priorities on their motivational values. The nurse said being healthy in mind and body was her motivational value, whereas the teacher placed most emphasis on living in a world of beauty and appreciating the natural environment and arts around him[1].

This chapter reports the findings on the motivational and guiding values of the shareholders. The first part describes how a matrix of 11 shareholders' values was derived from the narratives of the 20 interviewee shareholders in Phase One. The values matrix illustrates both the self- and others-oriented sides of shareholders. The second part validates the list of shareholders' values by comparing the value items with those found in other values studies; and also those that were suggested by the shareholders in the questionnaire mail-out in Phase Two. The final part is an analysis of the values priorities of the 438 shareholders who responded to the questionnaire survey. The conclusion is that motivation for material wealth or monetary success is not the prime driver in shareholders' share-buying decisions. In fact, shareholders have other values priorities: *honesty*, *fairness*, *a comfortable life* and *family security* are rated as the top four important values that shareholders live by.

The Shareholders' Values Matrix

The inquiry in Phase One generated a total of 137 values statements classifiable as representing seven motivational values and four guiding values. The motivational values are ultimate goals in life, and the guiding values represent ideal modes or conduct of behaviour. Table 4.1 lists the values which were either actually mentioned by the participants or inferred from their discourse. For ease of reference, motivational values are grouped together at the top, followed by the guiding values.

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1 Similar divergence was demonstrated by another couple (the tax accountant and young mother) during discussion about how they perceived the importance of the stakeholder groups. The husband believed that companies should look after their customers first, but his wife argued strongly that shareholders should be the top priority.

Table 4.1 List of shareholders' values

Type	Value items	Recognition	Orientation
Motivational	A comfortable life (financially secure, content)	15	Self
	Family security (taking care of loved ones)	11	Self
	Contribution to society (through involvement)	8	Others
	An active life (healthy in mind and body)	5	Self
	A world of beauty (beauty of nature and arts)	4	Others
	A world at peace (free of war and conflict)	3	Others
	A prosperous life (affluent, wealthy)	1	Self
Guiding	Honesty (truthfulness, integrity)	14	Others
	Fairness (respect for people)	13	Others
	Excellence (quality, best of one's ability)	3	Self
	Independence (self-reliance, self-sufficiency)	2	Self

Note: Recognition represents the number of participants referring to that value.

Also shown in Table 4.1 are the classifications of each value according to its orientation. As discussed earlier in Chapter 2, this inquiry focuses on the bi-polar 'self-enhancement' versus 'self-transcendence' dimensions put forward by Schwartz (1994). The former emphasises the pursuit of one's own relative success and dominance over others; the latter emphasises both the acceptance of others as equals and concern for their welfare. I have departed slightly from Schwartz's terminology by describing the values that relate primarily to oneself as 'self-oriented' and to the values that are primarily either others-regarding or those that conform to the behavioural expectations of society as 'others-oriented'. As can be seen, of the seven motivational values, four are self-oriented (*a comfortable life, a prosperous life, family security* and *an active life*) and three are others-oriented (*contribution to society, a world of beauty* and *a world at peace*). The guiding values of *honesty* and *fairness* are classified as others-oriented and they represent standards of behaviour expected by society of individuals; *excellence* and *independence* are more related to the standards an individual sets for themself.

Following is a detailed discussion of how each of the values are derived from the narratives of the shareholders and follows the sequence shown in Table 4.1, examining the seven motivational values first, then the four guiding values.

A Comfortable Life (Financially Secure, Content)

The motivational value most frequently mentioned by the largest number of participants (15 of the 20) is *a comfortable life*. The shareholders generally define a comfortable life as being financially secure and content, different from the comfortable (prosperous) life identified by Rokeach (1973). More specifically *a comfortable life* is viewed by various participants as 'providing for myself without living in desperate poverty'; 'having enough'; 'to have a secure and comfortable existence – in reasonable decency' and; 'a perfect moderate-class lifestyle, able to afford the things we want'. The participants who aspire to this value do not appear to be materialistically driven; this is reflected in the restrained or conservative manner in which they talk about their cars, houses, overseas holidays and, largely, their attitude to money.

The retiree and the architect said they are still driving more than 20-year-old cars because they 'didn't need' a newer one. The retiree, who seeks a laid-back, relaxed life, also assured me that he does not have 'a fabulous house'. The architect said he dislikes people who are unnecessarily acquisitive: 'They build houses far bigger than they possibly need, they drive vehicles that are far bigger than they possibly could use.' Another participant, the public accountant, who describes himself as 'not acquisitive and status-driven', says he does not need 'bigger' houses.

Some participants nominated overseas holidays as 'a bonus'. One couple, the retired banker and housewife, agrees that their overseas trips since they retired are a result of them being 'thrifty and careful'. Their sentiments are shared by another couple: the tax accountant said: 'We don't really want to do massive things, a bit of travel is nice . . . .We don't require too much really, it's sort of a bit of tramping [bushwalking].'

Money is seen by a majority of participants simply as the means to achieve the things they want: financial independence, secure retirement and the ability to look after their loved ones. The following comments from the various shareholders provide further insights into the view of the majority of participants that posits money as the means to an end rather than an end in itself:

> Money is not our driving goal by any means. I am not greedy. I don't want to be the richest man in the cemetery. (Retired banker)

> Our priorities would be to have our family educated more than to have money in the bank. (Housewife)

> I am not an ambitious person and I don't need to be the wealthiest person in New Zealand. (Retiree)

> Money is just financial, not having to worry about income. The basic is just trying to build wealth so that if we want to do something, we can. (Tax accountant)

> I am not acquisitive, I don't need bigger houses and bigger boats and all those things. I'm not driven by those things. I want to have a happy marriage and family life. (Public accountant)

> For me, as far as pursuing wealth, I would try to pursue wealth to the point where it enables me to do the things that I want to do … living in security. (IT consultant)

> I've never had any great ambition financially, I prefer the sort of perfect moderate-class lifestyle, able to afford the things we want. So making money is not a motivator. (Journalist)

> I think it is a big advantage in my case that I don't need the money. I give away money. I am too old. (Retired engineer)

> I would like to accumulate wealth but I'll never be devoting my life to accumulating wealth. There are other things I would like to do: spending time with my son. (Financial analyst)

> One thing I don't want is to end up with more money than I need. I don't see money as a way to happiness and I don't want to have a surplus. I want to have enough but not a surplus. (Teacher)

From the different descriptions by the participants of their materialistic needs (car, houses, overseas trips) and how they view money, *a comfortable life* seems to be most appropriately rendered as financially secure and content. Rokeach qualified *a comfortable life* with a prosperous life. I have categorised *a prosperous life* separately as being affluent, wealthy. *The Oxford English Dictionary* (1989), states that the ordinary current meaning of 'comfortable' is 'in a state of tranquil enjoyment and content'; 'prosperous' means 'having continued success or good fortune … flourishing, thriving'. Similarly, the *New Penguin English Dictionary* (2000) defines 'prosperous' as 'marked by success, *esp* financial success' and 'comfortable' as 'providing or enjoying contentment and security'. The stated meanings of these two words describe two different existential states: 'comfortable' relates to one's personal drive for contentedness and security; and 'prosperous' in terms of 'good fortune' and 'financial success' emphasises a drive for monetary wealth.

Solomon (1997), in his philosophical discussion of people's objectives, goals, and ultimate goals from the perspective of means and ends, lists *wealth* and *a comfortable life* separately. Schwartz (1992: 61) identifies 'wealth (material possessions, money)' as a value under the motivational goal of 'power'. The point is that some values do not exhibit equivalence of meaning across cultures (Schwartz and Bardi, 2001), so even if only from the shareholders' cultural standpoints, we can differentiate *a comfortable life* (financially secure, content) from a *prosperous life* (identification with money, or wealth, as riches).

Family Security (Taking Care of Loved Ones)

Eleven participants nominated the importance to them of looking after their loved ones. Some said that it is one of the objectives of their share investing: 'to provide something for the kids'; 'at least the family is looked after'; 'has got to look after my retirement and my family'; 'to give them [grandchildren] as much education as possible – free of charge. I'll pay for their education'; and 'I like to think my son will have an interesting and good life'. Taking into account the views expressed by these participants, it is appropriate to adopt Rokeach's (1973) *family security* (taking care of loved ones). Schwartz (1992) identified *family security* as an important 'security' type of motivational value.

Six of the 11 shareholders who value *family security* share the view they should be able to provide their children or grandchildren with a good education. With 14 of the 20 participants holding university and postgraduate degrees, it is not surprising that family members' education is widely held by them as a priority.

Contribution to Society (Through Involvement)

Eight participants said that contributing to society and community is one of their aims in life. Some said it in simple terms – 'helping others'; 'taking a role in a community organisation'. Others made it more specific: 'a commitment to some charity organisations – maybe in financial terms, but also in time'; and 'my kids say I do too much for other people but then I don't think I do enough . . . when I get involved in something, I get involved in it'. The financial analyst participant said his idea of contribution to society is: 'I like to educate people about investment because it can improve their lives.'

The participants who want to contribute to society want involvement beyond a simple financial sense. *Contribution to society* (through involvement) does not depart completely from Rokeach's (1973) 'helpful (working for the welfare of others)', and Schwartz's (1992) 'helpful' classified as a 'benevolence' motivational goal. This others-oriented motivational value is also very similar to Solomon's (1997: 152) 'doing something for my community'.

An Active Life (Healthy in Mind and Body)

A quarter of the participants believe in having *an active life* and they describe it as 'staying healthy', 'doing outdoor stuff', 'being mentally astute' and 'enjoy the outdoors . . . to remain healthy in frame of mind and body'. In those terms, *an active life* involves being healthy in both state of mind and body, hence this is the most appropriate way of describing what these shareholders want in life.

Though the value of health is not included in Rokeach's list, it is found in Schwartz (1992: 61) who describes 'healthy (not being sick physically or mentally)' as a 'security' type of goal. Rokeach's omission of health as a value has attracted criticism from Kitwood and Smithers (1975: 177) who argue that 'anything to do with health, vitality' is an important value. These authors' arguments found support from five of the participants who said they strive to have a healthy mind and body.

A World of Beauty (Beauty in Nature and Arts)

One-fifth of the participants appreciate the beauty of the natural environment or art which is identical to *a world of beauty* in Rokeach (1973). The retiree wants 'to do the right thing for the environment', and the architect speaks of a company he does not want to invest in because their shops are 'nothing but big tin sheds'.

The teacher and his wife, the public nurse, declared a love for nature. The wife said: 'I find the outdoors is my sort of guiding principle in terms of something that is greater than I am and it is a force that renews my energy by getting into hills and bush.' The husband is in support: 'My surroundings and my environment are very important to my happiness.' He also expanded on what he meant by surroundings: 'I put a lot of energy into having a room looking nice. Nice things, I suppose, because I am very interested in design.'

Those four participants' appreciation of the beauty of nature and arts meets Rokeach's (1973) description. Schwartz (1992) categorises *a world of beauty* as a 'universalism' type of motivational goal and he also lists 'protecting the environment (preserving nature)' under the same category. Though protecting the environment, as a value, may be seen as an appropriate description of the narratives of the shareholders, I found it too restrictive in the sense that it leaves out the aesthetic side of both natural and man-made surroundings. *A world of beauty* is others-oriented as it relates to both caring about and sharing the beauty of nature and arts with others.

A World at Peace (Free of War and Conflict)

Three of the four participants – the architect, the public nurse, the teacher – who value *a world of beauty* also support *a world at peace* as an important motivational value. In their terms: 'Even in international situations it could be better sorted out without the use of force', '[I] support peace' and 'we share a pacifist belief'. These views are very much in line with *a world at peace* (free of war and conflict) in Rokeach (1973) and Schwartz (1992) , which is an others-oriented value.

A Prosperous Life (Affluent, Wealthy)

Only one shareholder among the 20 desired great wealth. The young corporate accountant stressed at various times during the interview that she wants to be 'more than comfortable' which she measured by 'overseas holidays every year, lovely house'. According to this participant:

> I hate to say this, but financial security to me is very, very big . . . I would hate to think that one day I could not have what I want to have. So it is only in financial security [with an embarrassed laugh] I want to have everything. . . I guess I tied it to happiness. I think that it is going to result in happiness even though I know that it is not always the case.

Although financial security is also desired by the participants who value *a comfortable life*, their desire for contentedness is much more important to them. This is in contrast to the corporate accountant whose drive for money is very important to her. For example, the other accountant, the public accountant who *has* and wants to maintain his comfortable life, sees happiness as:

> I want to have a happy marriage and family life and be part of that activity, and helping all the people that I can help as the opportunities come to me . . . That brings happiness and contentment.

Self-nomination by shareholders of the desire for either contentedness or material wealth clearly differentiates between *a comfortable life* and the drive for *a prosperous life*. This research shows that the two values do not mean the same thing to these shareholders. As noted earlier, both Solomon (1997), who takes a philosophical view of identifying ends and means, and Schwartz (1992), who bases his opinion on empirical study, identify 'wealth (material possessions, money)' as a singular value. *A prosperous life* (affluent, wealthy) provides a better description for those who desire more than just a comfortable life and it is clearly a self-oriented motivational value.

Honesty (Truthfulness, Integrity)

In terms of guiding values, 14 participants indicated *honesty* is a guiding principle in their lives. Apart from the word 'honest' being used throughout the interview by those participants, other similar words such as 'integrity', 'honour' and 'truthfulness' were also used frequently. Rokeach's (1973) *honesty* (truthfulness) is an obvious – and guiding – value for the majority of the participant shareholders.

Honesty is a 'moral' value under the classification of Weber (1990); and it is considered as having the motivational goal of 'benevolence' which is to preserve and enhance the welfare of people with whom one is in frequent personal contact (Schwartz, 1994). There is a strong element of others-regarding in *honesty* and it is a standard of behaviour expected by society. A large number of interviewee shareholders said that they took it for granted that *honesty* is their guiding value and that they expected it in others. For instance, 'you always think the best of people, that they be honest'; 'my guiding principle is to be honest because I will never be attracted to do anything else'.

Fairness (Respect for People)

Thirteen participants regarded *fairness* as an important guiding value. The journalist said that he regards 'fairness and equity' as his guiding principle. Five others nominated 'do unto others as you would have them do unto you' as their 'golden rule'. Interestingly, two participants (the retiree and the architect) see *fairness* as going beyond dealing with people: '[being] kind to other people and obey the laws of the land'; 'being fair to people, acting in a moral way towards other people, not harming other people or the environment or animals unnecessarily'.

Other participants' expectations of *fairness* emerged from their statements that they are not happy with certain industries or companies because of what they view as their exploitation and manipulation of society. *Fairness* can be seen in the context of 'social justice (correcting injustice, care for the weak)' under the 'universalism' type of value described in Schwartz (1992). Furthermore Ng (1982), who questions the comprehensiveness of Rokeach's value items, suggests that values such as social justice, social power, equity and self-determination should be added to Rokeach's list of values to reflect cultural relevance. Social justice, explained as 'fairness, no discrimination', is included in a study of consumer attitudes conducted by Allen et al. (2002).

Solomon (1997), in his discussion of business and ethics, states that the free market depends on respect for people as well as for private property, respect for contract and respect for the rules of fair play. A majority of the participants connected *fairness* to respect for people, to their adherence to the golden rule and also to their stand against exploitation. *Fairness* is clearly an others-oriented guiding value.

Excellence (Quality, Best of One's Ability)

Three participants nominated *excellence* as one of their guiding values. Two of the three shareholders defined *excellence* as working to the best of their ability, which is very similar to competence, nominated as a 'personal virtue' by Ryan (1994). According to the IT consultant: 'My goal in life is excellence in every way ... striving to always do everything as well as possibly can be done,' and the retired engineer said: 'In order to satisfy myself, I have to do the best job I can.' However, it is interesting to note that the marketing consultant related *excellence* to quality. He said:

> Excellence is everything. Yes, quality. Nobody goes bust striving for quality. I mean *quality*, I don't mean fashion or apparent quality, I mean real quality, three-dimensional quality.

Considering all three of these comments it seems more appropriate to describe *excellence* as 'quality, best of one's ability' than simply 'competence'.

At first view, the value of *excellence* seems to be associated with 'a sense of accomplishment' put forward by Rokeach (1973), and Kahle (1983). However, the meaning of *excellence* given by the participants does not conform to the qualification 'lasting contribution' provided by Rokeach, and Kahle does not include any further description of 'a sense of accomplishment'.

Working excellently, to the best of one's ability, is in a way similar to 'successful (achieving goals)' in Schwartz (1992) which is a self-enhancement 'achievement' type of value. However, *excellence*, primarily self-oriented, appears to have broader application than the more limited striving to be successful.

Independence (Self-reliance, Self-sufficiency)

Two participants value *independence*. The comments from the retiree and IT consultant were: 'I like to be independent and do my own thing. I don't like to be circumscribed by conformity.' and 'It is important for me to provide for myself ... and also without being a burden on other people or other organisations, or even the country.' The elements of self-reliance and self-sufficiency evidenced in those two shareholders' comments conform with Rokeach (1973) and Schwartz (1992). As a 'self-direction' type of value (Schwartz, 1992), *independence* is a self-oriented guiding value.

For ease of reference in discussion in later chapters, the 11 values are presented in the form of a 2 × 2 matrix (see Figure 4.1), each placed according to its type and orientation.

Validating the List of Shareholders' Values

Two procedures were employed to check how comprehensive is the list of the 11 values identified from the narratives of the shareholders in Phase One. The first

		Type of value	
		Motivational	**Guiding**
Orientations	**Self-oriented**	A comfortable life A prosperous life Family security An active life	Excellence Independence
	Others-oriented	Contribution to society A world of beauty A world at peace	Honesty Fairness

Figure 4.1 Matrix: Classification of shareholders' values

compared the value items with those found in Rokeach (1973), Schwartz (1994), Kahle (1983) and Ryan (1994). This was then followed by analysis to discover if there is any difference between the values identified in Phase One and the 'other' values suggested by respondents to Phase Two's questionnaire survey.

Cross-checking the Values Items

Throughout the previous section, the 11 shareholders' values were compared with those of Rokeach (1973) and Schwartz (1992, 1994). This section provides an overall picture of the comparisons. Table 4.2 compares shareholders' values with those identified by Rokeach (1973), Schwartz (1994) and Kahle (1983) to show differences and similarities.

Table 4.2 Values comparison

Shareholders' values	Rokeach (1973)	Schwartz (1994)*	Kahle (1983)
A comfortable life (financially secure, content)	A comfortable life (a prosperous life)	-----	-----
A prosperous life (affluent, wealthy)	-----	Wealth (power)	-----
Family security (taking care of loved ones)	Family security (taking care of loved ones)	Family security (security)	Security
Contribution to society (through involvement)	Helpful (working for the welfare of others)	Helpful (benevolence)	-----
An active life (healthy in mind and body)	-----	Healthy (security)	-----
A world of beauty (beauty in nature and arts)	A world of beauty (beauty in nature and arts)	A world of beauty (universalism)	-----
A world at peace (free of war and conflict)	A world at peace (free of war and conflict)	A world at peace (universalism)	-----
Honesty (truthfulness, integrity)	Honest (sincere, truthful)	Honest (benevolence)	-----
Fairness (respect for people)	-----	Social justice (universalism)	-----
Excellence (quality, best of one's ability)	-----	Successful (achievement)	-----
Independence (self reliance, self sufficiency)	Independent (self-reliant, self-sufficient)	Independent (self-direction)	-----

----- not found in the relevant study
* The word within the ( ) in the column under Schwartz identifies the value type.

Most of the 11 shareholders' values identify with the universal human values listed in Rokeach (1973) and Schwartz (1992, 1994). However, almost none of the shareholders' values are identifiable with those in Kahle (1983). This result is not entirely unexpected because this inquiry into shareholders' values is based on the concept that values serve as guiding principles in a person's life whereas Kahle's values focused on people's daily lives and were used in studying consumers' choice preferences. It also illustrates that within share-buying circumstances, shareholders refer to values that guide their lives rather than to those that are important to their daily life (for example, *warm relationship with others, fun and enjoyment in life* and *sense of belonging*).

Moreover, comparison of the 11 shareholders' values with the personal values and personal virtues used in Ryan's (1994) study of executives and shareholders shows that only three (*family security, honesty* and *independence*) are the same. Ryan's *competence* and the shareholders' value *excellence* seems similar. Though Ryan does not define the value *personal prosperity* in her study, the word 'prosperity' when taken in the context of financial success seems to be very similar to the shareholders' value *a prosperous life*.

The remaining 15 values and virtues in Ryan (1994) – *equality for all, happiness, physical safety, pleasure, political freedom, self-respect, social recognition, wisdom, ambitious, courageous, forgiving, helpful, productive, rational, responsible* – were not mentioned by the participants in my inquiry as values they desire for themselves. This indicates that though Ryan and I both examined the values of shareholders, this inquiry into shareholders' values would have been compromised if the complete list was adopted from Ryan rather than derived from the exploratory process of Phase One of this inquiry.

This cross-checking process shows that the shareholder values identified by the Phase One participants are reasonably representative as most of them can be found in Rokeach (1973) and Schwartz (1992, 1994). In fact, apart from *a comfortable life,* which is not found in Schwartz, the remaining ten values are largely similar. After cross-checking, the next step was to analyse the other values suggested by the shareholders of the Phase Two questionnaire survey to find out whether all core values were represented in this first strand of inquiry.

Core Shareholders' Values

The 11 values identified by shareholders in Phase One were incorporated in the questionnaire survey in Phase Two. Two blank spaces were provided under this list of values and shareholders were invited to add in any other values that they felt should be included. It is interesting to note that only 13 other values items were suggested by respondents to the survey and I have classified them into two categories.

The first category consists of values that are similar in sense to those already listed in the questionnaire. 'A world without pollution', 'a world without environmental damage'[2] and 'contribution to environmental sustainability' can be grouped under *a world of beauty*; 'world unity' as *a world at peace*; and 'empowering others by the use of my skills and knowledge' as *contribution to society*. The second category contains the values that do not seem to be directly applicable to share-buying decisions: spiritual values such as 'the religious dimension' and 'to walk with and please God'; values that guide daily life including 'a sociable life', 'having fun'[3] and 'living holistically'; and others such as 'the challenge to be right more often than wrong', 'creativity' and 'self-motivation'.

My conclusion is that the list of shareholders' values identified in Phase One is representative of the general core values shared by shareholders when taking into consideration that some of the values suggested by the questionnaire respondents are either already contained in the list or are not really applicable in share-buying circumstances. Furthermore, most of these latter values seem to be singular, not shared by any other of the respondents who added values in the blank spaces.

Value Priorities

With Phase One identifying the values that are important to shareholders, Phase Two serves the confirmatory function. This final part of the chapter reports the *mean* rating scores of the 438 shareholders who responded to the questionnaire survey and thus identifies the values that are most important in guiding shareholders' lives and their share-buying decisions.

The participants were presented with the 11 shareholders' values and were first asked to rate the importance of each value that guides and motivates their lives on a scale of 1 to 7, where 1 is not important and 7 is extremely important. The shareholders were then asked how much influence they believe their values have on their choice of companies, and were also asked to indicate the *one value* that is most important in guiding their investment decisions.

Table 4.3 lists in order of importance the *mean* rating of each value (refer to column 2). The percentage of shareholders who nominate the one value that is most important to them when they make investment decisions is shown in column 4.

The *mean* ratings (see column 2 in Table 4.3) show that *honesty* and *fairness* are at the top of the list of important values that guide shareholders' lives. They are followed by the self-oriented motivational values *family security, a comfortable life* and *an active life*. Of lesser importance to shareholders are the three others-oriented motivational values (*a world at peace, contribution to society* and *a world of beauty*). The self-oriented motivational value *a prosperous life* is of the least importance to shareholders and is thus at the bottom of the list.

---

2 'A world without pollution' and 'a world without environmental damage' were nominated by the same respondent.

3 'A sociable life' and 'having fun' were nominated by the same respondent.

Table 4.3 Shareholders' values in order of importance

Motivational and guiding values	*Mean*	*SD*	Most important %	Most important Rank order
Honesty	6.62	0.65	15.90	2
Fairness	6.45	0.73	3.20	6
Family security	6.38	0.89	11.40	3
A comfortable life	6.35	0.90	35.30	1
An active life	6.33	0.87	3.70	5
Excellence	6.16	0.83	5.60	4
Independence	6.09	0.95	3.20	6
A world at peace	5.94	1.27	1.90	9
Contribution to society	4.94	1.21	2.10	8
A world of beauty	4.80	1.45	0.30	11
A prosperous life	4.27	1.43	1.30	10

Honesty is perceived by shareholders as their most important value, however, when it comes to making share-buying decisions, the striving for *a comfortable life* has greater importance than *honesty* for a large number of shareholders. *A comfortable life* (described as financially secure and content) attracted the highest percentage (35.3 per cent) of shareholders nominating it as the most important value that guides their investment decisions. *Honesty* came second with about 16 per cent of shareholders indicating that it is important to them. This result reflects reality because striving to be financially secure is very much in accord with the purpose of investing.

There is a large gap between the importance of *a comfortable life* and that of *a prosperous life* (described as affluent, wealthy). Apart from the results that show *a comfortable life* has a *mean* rating of 6.35 and *a prosperous life* has the lowest *mean* of 4.27, only 1.3 per cent of shareholders nominated *a prosperous life* as their principal motivation when making investment decisions. The shareholders' differentiation between *a comfortable life* and *a prosperous life* shows that within the shareholder culture, these two self-oriented motivational values represent the two extremes in terms of their importance to shareholders. Moreover, those shareholders who desire *a prosperous life* indicated that it has only a 'mild' influence on them.

Where shareholders were asked to indicate how much influence they believe their values have on their choice of companies, more than a quarter of them indicated that their influence is strong, and about 60 per cent consider them to be of mild influence. Only 16 per cent of the respondents consider that their values have no influence on them at all. Figure 4.2 shows the respective percentages of values nominated as most important in guiding shareholders' investment decisions.

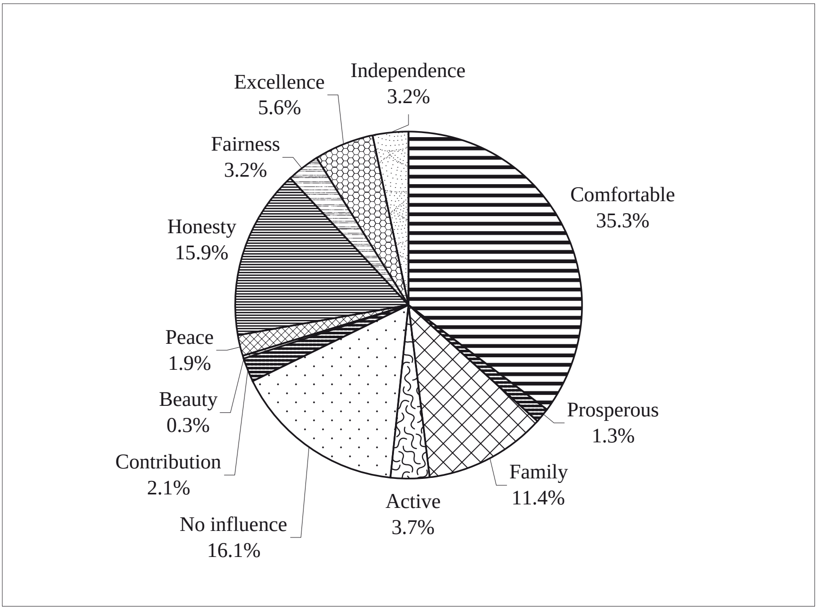

Figure 4.2 Importance of values by percentage of respondents

The self-oriented motivational values influence the majority (51.7 per cent) of shareholders. The same cannot be said for the others-oriented motivational values: less than 5 per cent of the respondents consider that they have any influence on their decisions. The guiding values of *honesty, fairness, excellence* and *independence* are important to making share-buying decisions for close on 28 per cent of the respondents.

With almost 84 per cent of shareholders indicating that their values do have some influence in their decisions as to what companies they choose to invest in throws considerable doubt on the common assumption that values have no part to play in the investment decisions of ordinary shareholders. The interesting point is that while *a comfortable life* and *family security* are classified as 'personal' values – which are the opposite of 'social' values – *honesty* as a 'moral' value (see Weber, 1990) not only guides shareholders' personal lives but also plays an influential role for a comparatively large proportion of shareholders in this inquiry in guiding their share-buying decisions.

Fairness, though identified by shareholders in both phases as an important guiding value, does not seem to have as much influence as *honesty* when shareholders first make a share-buying decision. Only 3.2 per cent of respondents acknowledged the influence of *fairness* (refer to Figure 4.2). This result is worth noting because, as will be seen later in discussion of the impact of values (Chapter 8), *fairness* contrarily comes to the fore, influencing shareholders' selection of the companies they finally choose to invest in.

The statistical analysis of Phase Two reinforces the qualitative findings of Phase One in that both groups of participants acknowledge the existence of largely similar patterns of values that play a part when share-buying decisions are made. First, the four values *a comfortable life*, *family security*, *honesty* and *fairness* were mentioned by the majority of interviewee shareholders (refer to Table 4.1). These four values have the highest *mean* ratings in terms of importance in Phase Two (refer to Table 4.3). Second, shareholders in general do not seem to be driven by *a prosperous life*: only one shareholder in the group of 20 in Phase One, and just 1.3 per cent of the respondents in Phase Two indicated that it is important. Finally, only a minority of shareholders in both phases indicated that the others-oriented motivational values are important to them.

Conclusion

Shareholders have value priorities and *honesty*, *fairness*, *a comfortable life* and *family security* are rated as the top four important values that shareholders live by. However, more shareholders are influenced by *a comfortable life* than *honesty* when it involves investment decisions.

One important finding that emerged from the comparison of the shareholders' values with those of Rokeach (1973) is that to shareholders, *a comfortable life* and *a prosperous life* represent two very different motivational values. Shareholders differentiate between those two seemingly similar values; *a priori* for those shareholders who strive for *a prosperous life* consider money as an end rather than means. These two values have different impacts on shareholders' attitudes which subsequently influence their share-buying decisions and choice of companies; this will be further analysed and discussed in Chapter 8.

The next chapter moves onto the second strand of the inquiry – the qualities shareholders expect of company directors.

Chapter 5

The Second Strand: Qualities of Directors

> To me honesty has got to come first and then competence in handling a business.
>
> 77-year-old male shareholder

> Integrity, you can sort of trust that they will look after your investment.
>
> 42-year-old male shareholder

> Directors have got to be questioning.
>
> 72-year-old male shareholder

> Courage is the one.
>
> 75-year-old male shareholder

> They've got to be able to think outside the square.
>
> 57-year-old male shareholder

Shareholders in Phase One provided many comments and interesting stories describing the qualities they expect of company directors. The above statements express some of the ideal qualities that shareholders expect of directors: honesty, competence, integrity, courage and innovation. In total shareholders nominated nine ideal qualities that directors should have and they distinguished between the qualities that are fundamentally important, and those that are supplementary, to being an effective director.

This chapter consists of three parts. It first details how ideal directors' qualities emerged from the stories shareholders told of their experiences in challenging directors at annual general meetings. The importance of qualities such as honesty and accountability is reflected in the actions shareholders take in buying or selling their shares. The second part provides a snapshot of how the directors' qualities considered important by shareholders compare with the modes of behaviour identified by other researchers. It then presents an analysis of qualities suggested by Phase Two's participants to discover whether shareholders in both phases of the inquiry expect similar qualities from directors. The final part lists in order of importance the *mean* rating score of each desired directors' quality. The conclusion is that shareholders clearly differentiate between those directors' qualities that are fundamental to their requirements (*integrity, openness*, *competence* and *accountability*) and those that are of supplementary importance (*commitment, courage, innovation, leadership* and *prudence*).

Ideal Directors' Qualities

The question to shareholders in Phase One about the qualities they expect of their directors yielded 129 statements which were subsequently categorised into nine items (see Table 5.1). This discussion of each individual quality of directors also examines its difference to or similarity with the modes of behaviour or virtues[1] identified by Rokeach (1973), Ryan (1994) and Posner and Schmidt (1984). The studies by Ryan and Posner and Schmidt are of particular relevance because the former examines the virtues that American shareholders project onto their executives and the latter identifies the values of American managers.

Competence (Capable, Effective)

Almost all participants (19 of the 20) mentioned *competence* as a quality they expect of their directors. Most said: 'competence obviously'. The IT consultant's view is shared by a majority of the participants:

> As shareholders of course you are looking for somebody who is competent in their job and is going to run a business well and make a good profit.

Table 5.1 Qualities of directors

Quality items	Recognition*
Competence (capable, effective)	19
Openness (truthful, honest)	15
Integrity (trustworthy)	15
Courage (to question and to challenge)	11
Commitment (hardworking, loyalty)	8
Leadership	5
Innovation (visionary, a strategic thinker)	5
Prudence (cautiousness)	5
Accountability (accepts responsibility)	2

* Recognition represents the number of participants referring to that quality.

1 Though different terminologies were used by the authors, they are instrumental values, or the guiding values described in this inquiry.

Two shareholders added that *competence* does not mean just being able to run the company successfully for the shareholders; they want their directors to look after the other stakeholders as well:

> [C]ompetence in handling a business means looking after the interests of everybody – everybody who contributes to the well-being of the company. And you can't do that if you are not actually contributing to your customers with satisfaction and to your staff with security. (Manager)

> They need to look after the long-term investments of society … they need to be people who understand business and understand the views of all the stakeholders. (Bank manager)

Competence, according to the participants, includes three main elements: ability, experience and communication skills. In terms of ability, the architect succinctly pointed out: 'Directors need to have ability because if people are thick they shouldn't be directors of the company … they need to have an understanding of businesses.' Others said directors need to 'be able to absorb the problem'; 'have an understanding of the issues'; 'know the business'; 'be qualified in the subject in which they purport to be experts'; and 'have an understanding of all of the parts and how they contribute to the whole'.

Directors are expected to have 'a mix of skills' and 'broad experience in different fields of business or the economy'. The journalist clearly stated that directors' backgrounds, track records or history of performance are important for him. He said: 'The first thing I would look for with directors is: show me what you've done and tell me about your career, what's your experience, what's your breadth of experience, what have you achieved?'

Three shareholders added that it is desirable to have directors who can communicate. The young mother and the public nurse stipulated that directors need to 'communicate clearly and openly' and 'to be able to communicate to their shareholders'. The management consultant said he had high regard for one chairman of a publicly-listed company because 'he's a good communicator, he ensures the standards are high'.

From the corporate governance perspective, *competence* is one of the most important elements of an effective director. Shareholders' expectation of the necessary quality of *competence* (capable, effective) in directors is identical to the instrumental value 'capable (competent, effective)' found in Rokeach (1973); 'competent' as one of the personal characteristics of an ideal executive (Ryan, 1994) and 'competence (capable, productive, efficient, thorough)' in the study of American managers (Posner and Schmidt, 1984).

Openness (Truthful, Honest)

Three-quarters of the participants expect *openness* from their directors: 'communicate openly', 'no skeletons in cupboards', 'admit mistakes'. Some participants take it for granted that directors have to be honest: 'I don't particularly want any dishonest director, thank you'; 'I take honesty for granted. You know, if somebody is dishonest, I don't want to know him because you can't deal with dishonest people.' Common words used by the participants to describe *openness* are 'honest', 'truthful' and 'honourable'. The quality of *openness* implies full disclosure of mistakes made: bad news as well as good news.

The retired banker's appreciation of directors' *openness* is illustrated by an incident he recounted enthusiastically:

> The thing that impressed me was that Fred Holland, the chairman, he got up and told that as it was – they had made a mistake, they had done this and they got caught here. I went up to him afterwards and said I was delighted that he was so frank with us, told the truth, didn't try to fudge it or make excuses. 'Cause everybody can make a mistake. When you get things that you are aware of but they are all fudged around or pushed over, you don't really know what's happened, you get concerned. I was most impressed with him.

The quality of *openness* is further emphasised by another shareholder, the retired engineer, who described his actions when he felt that shareholders were not given the full story:

> I went to a presentation. The shares were about $2.30 and somebody asked the number one of the company – his name escapes me – what the prospects were for the year they were now in. And he said 'Oh, we are going to make the same dividend,' and I wrote the words down in my diary. They made the same dividend all right, but their profits were down like that. The thing is, you see, he didn't answer the question. I don't want him! I don't want a guy like him, that was my money. So I said to my broker after the presentation: 'Don't buy any more of those things for me, I don't know about this guy.'

Openness (truthful, honest) is an important quality of directors and slightly departs from the context of 'honest (sincere, truthful)' (Rokeach, 1973) and 'straightforwardness (direct, candid, forthright)' (Posner and Schmidt, 1984) in the way that participants emphasise the need for disclosure of *all* information. Solomon (1992: 210) explains that honesty is the first virtue of business life, but it does not mean full disclosure and 'there are certain aspects of every transaction that are expected to be unknown and undisclosed'. To the participants, *openness* describes a quality of directors which embraces honesty, but takes it further to reflect full disclosure – mistakes and all.

Integrity (Trustworthy)

Similar to the often-cited quality of *openness*, three-quarters of the participants indicated that *integrity* is important to them. *Integrity* relates to how directors deserve the trust of participants by acting in the interest of shareholders. For instance, the tax accountant said *integrity* of directors to him means that 'you can trust that they will look after your investment rather than putting self-interest first'. The retired engineer equated directors with neighbours to make his point. He said: 'Would you like him as a neighbour? That's my criteria! If I don't like him as a neighbour, I don't want to have money in his company.'

The public accountant and the public nurse explained how they view *integrity* by both naming the same retiring chairman of a publicly-listed company whom they admire: 'he has never muddied his copybook with self-seeking purposes'; 'he is a man of the people, some sort of community respect and he hasn't done anything wrong on paper, he is a good citizen, a good model'.

The retired participant, who is a member of an environmental organisation, illustrated his view of directors' *integrity* this way: 'They are not the sort of people who would clear-fell indigenous forest for the sake of profits; they wouldn't build a nuclear reactor and tell people that it is a gas fire.'

The participants' views of *integrity* stem from a fundamental feeling of need for someone on whom they can base their trust, someone who acts in the interest of shareholders instead of using the company to achieve their own ends. In many respects, the shareholders' interpretation of *integrity* is similar to that expressed by Solomon (1999), who says that *integrity* involves respect for other people and is the very opposite of using other people for one's own ends. Though *integrity* is not included in Rokeach (1973) and Ryan (1994), it is found in Posner and Schmidt (1984) who describe a person with integrity as 'truthful, trustworthy, has character, has convictions'.

Courage (To Question and To Challenge)

A view shared by more than half of the participants is that they do not want any 'yes-men' on a board. A comment such as '[need] to resist CEO's inherent agenda' from the tax accountant is common among the shareholders. Others said it is necessary for directors 'to have an inquiring mind and to challenge in a supportive way'; 'to be questioning'; 'to question and probe the CEO'; and 'work with other people effectively, in a constructive but critical way so that I can have confidence that they are representing my interests as a shareholder'.

The retired engineer distinguished himself from the other participants by suggesting a confrontational approach. He said that in some cases directors have to be 'ruthless in getting to the heart of the matter'. He illustrated his point by using a well-known former government minister in New Zealand as an example:

> Courage is the one. I'll tell you a story about Ruth Richardson. Sir Robert Muldoon was prime minister and he was a very domineering man, a very nasty man. Ruth knew this when she entered Parliament. Muldoon would not be contradicted. In the first caucus Ruth matched him, found a seat in the front row facing Muldoon. She sat smack in the middle seat in the front row and she stared him in the eye. Now, you've got to have that quality. One or two people on the board with that attitude would tackle the problem.

The *courage* shareholders expect of directors is very similar to Rokeach's (1973) 'courageous (standing up for your belief)' and Ryan's unqualified 'courageous' (1994). Surprisingly, this quality is not found in American managers' values in Posner and Schmidt (1984). Maybe this reflects the different roles played by directors and managers. Obviously, directors are expected by shareholders to question and challenge the CEO in an effective manner.

Commitment (Hardworking, Loyalty)

Shareholders are concerned that directors sit on too many boards and this caused eight participants to question whether directors devote sufficient time to their companies. For example:

> If they put their efforts into this company, how do they split it when they go there, there and there? (Retired banker)

> I don't like directors holding directorships in 10 other companies. (Housewife)

> If they are on a substantial sort of company, how can they possibly divide the attention they should be devoting to it? (Airline pilot)

> What I've noticed is that the same name pops up in a few companies. What happens is: does this person have the time to know the business of so many different companies and do a good job? Do they just pop along to the monthly meeting? (Young mother)

Some participants simply said they want their directors to be 'hardworking'; one said 'they've got to be most concerned – their work has got to be their hobby and their hobby has got to be their work'.

It is not just time commitment that shareholders expect of directors; three of the eight shareholders who identified this quality also want directors to be loyal to shareholders and act in their interests. Shareholders' interpretation of *commitment* is similar to Posner and Schmidt's (1984) 'a commitment to me, the company, or policies' which they refer to as 'loyalty'.

Leadership

Five participants said directors should have *leadership* quality. They see directors as ‘drivers’, ‘leaders’; ‘strong leaders’.

It is interesting to note that an equal number of participants supported an opposite view. They said directors need not be leaders; it is the CEO who should provide leadership. This comment from the bank manager is typical of this group: ‘It is preferable that the leader is the CEO, the person running the company.’

From the management perspective, *leadership* is important and Posner and Schmidt (1984) define it as ‘inspiring, decisive, provides direction’.

Innovation (Visionary, a Strategic Thinker)

A quarter of participants perceive *innovation* as an important quality. Their comments include ‘innovative thinkers’ and ‘have the visionary side’.

The airline pilot and the teacher expect directors ‘to think outside the square’ and to take on the strategic development of the company. The airline pilot further compared the roles of directors and management and said that ‘directors are strategic planners, managers are tactical planners’. The journalist is of a similar view and talked about why he was not investing in certain companies: ‘I’m extremely cautious about a number of companies. It revolves around my unhappiness with their strategy or my view on the ability of managers to execute that strategy.’

The quality of *innovation* can be identified with ‘imaginative (daring and creative)’ in Rokeach (1973) and ‘imagination (creative, innovative, curious)’ in Posner and Schmidt (1984).

Prudence (Cautiousness)

Five participants saw *prudence* as an important quality. Three of these shareholders related it to deployment of financial resources:

> You need to save money in good times, so bad times you can ride through. (Airline pilot)

> Use it [money] responsibly, which means that you are not going to throw it away. (Marketing consultant)

> Don’t go over the top and start giving top management luxuries. (Tax accountant)

The prudence approach not only applies to the financial side. Two other participants want their directors to be cautious in their strategic decisions. The management consultant wants his directors ‘to ensure that the company doesn’t go off the track, but focus on the core business and try not to do smart things'. The comment from the financial analyst was:

> You want someone who is cautious and defensive. One would say 'let's expand to Australia' and you want the other one to say 'yes, but only if this, this, and this is satisfied'.

Desire for exercise of the quality of *prudence* seems to stem from shareholders' concern about excessive remuneration of top management and directors, and also the substantial loss in share value when a few New Zealand companies' overseas expansion ended in failure. Interestingly, *prudence* (cautiousness) is included in neither Rokeach (1973) nor Posner and Schmidt (1984).

Accountability (Accepts Responsibility)

The quality of *accountability* is conveyed in the narratives of two shareholders who talked about their experiences at their companies' annual general meetings. The retired banker recounted how impressed he was with the chairman who took the responsibility of fronting up to the shareholders and admitting the company's error of expanding into Australia which resulted in a huge loss (refer to the retired banker's narrative under the quality of *openness*, page 60). The retired engineer described a different experience:

> At the [a New Zealand company] annual meeting, the chairman gets up and says: [imitating the tone of the chairman] 'We didn't have a very good year because our Australian subsidiary took off and did things they should never have done, they leaped into this and they made a mess of it. And then we had to clean up, eventually wind them up and finish. Now we have conquered that problem,' and he sat down! That was the end of that! Then they called for directors to be re-elected; the same directors were proposed, no director had resigned. The chairman hadn't resigned, they didn't say which director was in charge of overseeing the Australian business. It apparently had happened in a vacuum.

The result was that the next day, the retired engineer sold his shares. 'I can't buy that kind of company,' he said.

From the above two shareholders' reactions towards directors with entirely opposing views about acceptance of responsibility, *accountability* can be seen as an important quality. Indeed, it is a guiding principle under the description of 'responsible (dependable, reliable)' in Rokeach (1973) and 'responsible' in Ryan (1994).

In summary, the nine core qualities shareholders expect of their directors are: *competence, openness, integrity, courage, commitment, leadership, innovation, prudence* and *accountability.*

Validating the Qualities of Directors

Throughout the previous section, the nine core directors' qualities were compared with the behavioural standards described by Rokeach (1973), Ryan (1994) and Posner and Schmidt (1984). This section firstly provides an overall picture of the comparisons (see Table 5.2), then follows with a comparison between the core directors' qualities and those 'other' qualities suggested by the respondents in the questionnaire survey.

Five of the nine qualities of directors (*competence, openness, courage, innovation* and *accountability*) are identifiable with Rokeach's (1973) list of instrumental values, though with a slight change in terminology. This identifies the values which are relevant to not just guiding a person's life but also to a business situation. The three qualities *integrity, commitment* and *leadership,* though not

Table 5.2 Qualities of directors comparison

Qualities of directors	Rokeach (1973)	Ryan (1994)	Posner and Schmidt (1984)
Competence (capable, effective)	Capable (competent, effective)	Competent	Competence (capable, productive, efficient, thorough)
Openness (truthful, honest)	Honest (sincere, truthful)	Honest	Straightforwardness (direct, candid, forthright)
Integrity (trustworthy)	- - - - -	- - - - -	Integrity (truthful, trustworthy, has character, has convictions)
Courage (to question and to challenge)	Courageous (standing up for your belief)	Courageous	- - - - -
Commitment (hardworking, loyalty)	- - - - -	- - - - -	Loyalty (has a commitment to me, the company, or policies)
Leadership	- - - - -	- - - - -	Leadership (inspiring, decisive, provides direction)
Innovation (visionary, a strategic thinker)	Imaginative (daring, creative)	- - - - -	Imagination (creative, innovative, curious)
Prudence (cautiousness)	- - - - -	- - - - -	- - - - -
Accountability (accepts responsibility)	Responsible (dependable, reliable)	Responsible	- - - - -

found in either Rokeach or Ryan (1994), are similar to those of the values of American managers (Posner and Schmidt, 1984). The quality *prudence*, though considered important by shareholders, is not found in Rokeach, Ryan or Posner and Schmidt.

Core Qualities of Directors

Respondents to the questionnaire survey in Phase Two were asked to specify any other qualities that they felt should be included in the list of directors' qualities. A total of 66 items were nominated by the respondents and were classified into two categories. Qualities that were very similar to those already listed in the questionnaire were grouped into the first category and any new items were put into the second category.

The first category consists of 61 items with the majority (31) relating to *competence*, the remaining items are split among the qualities of *courage, commitment, innovation, prudence* and *accountability*. It seems obvious that the items related to *competence* are classifiable into three sub-groups – ability, experience and communication skills. In fact these are the main elements that constitute the quality *competence* (refer to earlier discussion on *competence*, page 59). Most of the items suggested by the respondents in Phase Two are repetitions of the statements drawn from the narratives of the 20 shareholders. 'Understand business' and 'business smart' are typical examples of ability. 'Sound business knowledge', 'proven record, 'track record', 'background performance', 'industry knowledge', 'actual business experience' and 'knowledge of sector' clearly relate to the element of experience. 'Ability to communicate' and 'liaise with staff and shareholders' can be placed under communication skills. It is also of note that communication skills also stretch to listening: 'listen to others', 'listening to shareholders' concerns' and 'ability to listen'. Obviously the description of *competence* as 'capable, effective' does not represent what shareholders consider as competence. Therefore *competence* should be described as 'ability, experience and communication skills' in order to align with the shareholders' interpretation.

The other items nominated by the respondents are very similar to the statements from which the qualities of directors are derived. The following are typical: 'be inquisitive' and 'prepared to withstand senior executives' salary package demands' can be considered in the sense of *courage* which is to question and to challenge. 'No more than five directorships', 'limit involvement in excessive number of companies', 'commitment to shareholder interest', 'as an employee loyalty to shareholders', 'identifies with shareholders' interests' and 'not there purely for self-betterment' are typical examples of *commitment* (hardworking, loyalty). 'Vision', 'progressive' and 'get together to form strategy' relate to *innovation* (visionary, a strategy thinker). 'Not a high risk taker' as *prudence* (cautiousness). 'Accountable for company performance' is *accountability* (take responsibility).

The second category consists of five items – 'no bishops, politicians or dignitaries on board', 'age not too old', 'self-reflective', 'not greedy' and 'unselfish'

– which are all neither relevant nor capable of adding a new perspective to the qualities of directors.

The result from examination of the other qualities nominated by respondents in Phase Two is that the description of *competence* should be stated as 'ability, experience and communication skills' to reflect what *competence* means to the shareholders. Except for this change, the list of directors' qualities is reasonably consistent with the qualities derived in Phase One.

Importance of Directors' Qualities

Shareholders in Phase Two were presented with the nine qualities of directors and were first asked to rate the importance of each of the listed qualities on a scale of 1 to 7, where 1 is not important and 7 is extremely important (the *mean* ratings are shown in the second column of Table 5.3). The shareholders were then asked to indicate the *one quality* that is the most important to them when they make investment decisions. The percentage of shareholder nominations for the quality that is most important to them is shown in the fourth column in Table 5.3.

Integrity not only attracted the highest *mean* rating from the shareholders, it was also considered as the most important quality by the largest number (28 per cent) of respondents. Following closely were *openness, competence* and *accountability*. Of the least importance was *prudence*.

Though *integrity, openness* and *competence* are perceived as important by the shareholders of both phases, the importance of *courage, commitment* and

Table 5.3 Qualities of directors in order of importance

Qualities of directors	*Mean*	*SD*	The most important	
			%	Rank order
Integrity (trustworthy)	6.72	0.65	28.00	1
Openness (truthful, honest)	6.59	0.79	13.20	3
Competence (capable, effective)	6.55	0.83	25.20	2
Accountability (accepts responsibility)	6.50	0.81	11.80	4
Commitment (hardworking, loyalty)	6.01	1.09	2.80	8
Courage (to question and to challenge)	6.00	1.07	3.90	6
Innovation (visionary, a strategic thinker)	5.97	1.12	7.60	5
Leadership	5.60	1.34	3.00	7
Prudence (cautiousness)	5.42	1.19	0.00	–

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 4.5 per cent of the respondents did not indicate any item that is most important to them.

accountability differs between these two groups of participants. While 11 of the 20 interviewee shareholders emphasised that they did not want any 'yes-men' on a board, *courage* of a director, *a priori*, in itself is not the most important factor to be considered in share-buying decisions. Hence, *courage* is perceived as important by only a small group (3.9 per cent) of shareholders. Likewise, though eight of the 20 shareholders mentioned the quality of *commitment*, only 2.8 per cent of respondents considered it as most important.

The quality *accountability* which was inferred from the narratives of two shareholders (the retired banker and the retired engineer), attracted a *mean* rating of 6.5 which makes it one of the four most important directors' qualities. The actions taken by those two shareholders illustrate how important the quality of *accountability* is to shareholders. The banker showed his appreciation by thanking the chairman who accepted responsibility for failure, which seems an unusual action from a small shareholder. The engineer sold his shares because none of the directors in the company took on the responsibility of admitting a mistake and offering to resign.

It is surprising to note that *prudence* is not a quality that is considered of high importance even when the majority of the shareholders in Phase Two are themselves relatively conservative in their risk attitudes[2]. A plausible explanation is that shareholders understand that in running a profitable business, risk-taking is unavoidable. It seems reasonable to infer, therefore, that this is the reason why none of the shareholders in Phase Two indicated *prudence* of directors as most important when they make investment decisions.

The pattern emerging from both the *mean* ratings and the number of nominations of the most important quality shows that the nine qualities can be divided into two groups according to their importance to shareholders. The top four (with *means* $\geq$ 6.5) are *integrity, openness, competence* and *accountability.* Over 78 per cent of the respondents indicated that one of these qualities is most important to them. The bottom five (with *means* between 5.42 and 6.01) are *commitment, courage, innovation, leadership* and *prudence*. Only 17.3 per cent of respondents considered those qualities were most important. Shareholders thus distinguish between the qualities that they consider as fundamentally important and those that are supplementary to being an effective director.

It is not just New Zealand shareholders who expect *integrity, openness, competence* and *accountability* from their directors, American shareholders hold similar views: the top three personal virtues desired by American shareholders of their executives are 'competent', 'responsible' and 'honest' (Ryan, 1994).

2 In both phases, a majority of the participants said they are willing to risk a little bit of their capital in order to gain a higher return; most of the rest are not prepared to risk losing any capital at all.

Conclusion

This second strand of inquiry into directors' qualities draws out qualities that are fundamentally important to shareholders and those that are of supplementary importance. A majority of shareholders in both phases of the inquiry expect *integrity*, *openness* and *competence* from their directors. In other words, while shareholders expect their directors to have the necessary ability, experience and communication skills, it is just as important to them that the directors are trustworthy and honest.

The next chapter moves on to the third strand of the inquiry – shareholders' attitudes to corporate responsibility.

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Chapter 6
The Third Strand: Shareholders' CSR Concerns

> Corporate responsibility is a matter of balancing those pressures to make sure that nobody is being abused.
>
> 44-year-old male shareholder

> You can be as responsible to the community as you like, but if you are not running the company properly, you are not going to get very far. And the reverse, you can run the company as well as you like, but if you are not focusing on your community, then that's not going to last very long.
>
> 53-year-old male shareholder

> Unless you have motivated employees, you are going to be stuffed.
>
> 50-year-old male shareholder

> You don't have a business without customers.
>
> 42-year-old male shareholder

> You don't have a business without shareholders putting in their initial investments. And then, you don't have a business if you don't have customers.
>
> 37-year-old female shareholder

The statements above offer some insight into how the shareholders in Phase One view corporate responsibility. Obviously, these shareholders see that for companies to survive and be successful, they need to look after their stakeholders. The first two shareholders want companies to establish a balance between the needs of stakeholders; the last three shareholders point to specific stakeholders that they feel companies should look after first. This chapter examines shareholders' attitudes to corporate responsibility, which is the last of the three strands of this inquiry.

The first part of this chapter describes the perceptions shareholders have of the actions their companies should take in looking after customers, employees, shareholders, suppliers, the environment and the community. The second part analyses other responsibilities suggested by respondents in Phase Two in order to determine the representativeness of the core corporate responsibilities identified in this inquiry. The third part discusses how shareholders rate the importance of issues identified as responsibilities to individual stakeholder groups. The final part lists the *mean* ratings of all 31 responsibilities in order of importance to show the responsibilities that are of most concern to shareholders. The conclusion is that shareholders have concerns other than capital appreciation and dividend income. In fact shareholders consider the provision of accurate and honest financial reports as being of utmost importance; the maintenance of long-term growth in share price and regular dividend income come only 8th and 19th place respectively in terms of importance.

Corporate Responsibility Issues

The question to the 20 shareholders in Phase One on how they believe each of the six main corporate stakeholders should be treated yielded a total of 285 statements which were then classified into 30 of the final set of 31 responsibilities toward stakeholders: employees, customers, shareholders, suppliers, the community and the environment. This is then followed by a discussion on why the 31st item, *report social and environmental performance,* was added to the list of corporate responsibilities.

Employees

Six issues relating to dealings with employees are listed in Table 6.1.

Provide equitable wages and rewards Of the 13 participants who said they expect companies to look after their employees, six pointed to the need to pay them fairly. Others said: ‘pay wages commensurate with responsibility’; ‘remuneration tied to performance’; ‘pay the market rates’.

The IT consultant indicated also that equitable wages should be paid in every country a company operates in:

> The first thing is paying fair wages and that’s not only in New Zealand but for me that is actually a very fundamental thing about companies working overseas, especially in developing countries.

The financial analyst said that companies should look at the ‘incentivising side’ and two other participants suggested bonus reward or provision of pension:

> The staff should be rewarded to get them on side and they should benefit as well as shareholders with any increment or increase. They should get their share of it. Everybody should get a share of it. (Retired banker)

> Providing them with a decent pension scheme to look forward to. All the things that you can find in successful companies that have survived for more than a hundred years. (Marketing consultant)

Table 6.1 Looking after employees

Employee issues	Recognition*
Provide equitable wages and rewards	13
Ensure a healthy and safe workplace	7
Provide training and development	5
Create a family-friendly work environment	5
Respect employees' needs	4
Communicate company's plans	4

* Recognition represents the number of participants referring to that issue.

Obviously those shareholders all considered provision of *equitable wages and rewards* is a fundamental responsibility of companies.

Ensure a healthy and safe workplace Seven shareholders said that looking after the health and safety of employees is important. Most share the corporate accountant's view that employees should be given a safe workplace: 'nobody should be under risk of injury happening to them'.

Not surprisingly, the public nurse believes companies should have occupational safety and health measures in place. Others said: 'have the right equipment to do their jobs and keep them safe'; 'you've got to supply them with good working conditions, and keep the machinery that they use up-to-date, and the environment in which they work healthy'.

Provide training and development Five participants expect companies to give employees appropriate training. The manager participant considers staff development is so important that he had adhered to it himself: 'In my office I was always careful to assure myself that my staff were having opportunities for professional development.'

Create a family-friendly work environment A quarter of the participants believe in providing a family-friendly work environment for employees. Two of them (the retiree and the public accountant) said that it is important to have a 'congenial workplace' and 'happy workforce'.

Others affirmed this from their own experience. The retired engineer's story was about how he mixed with his workers:

> I saw a lunch room for the management and asked 'What for?' The boss said: 'It's to show you are managers.' But you don't need to *show* that you are the manager, you *are* the managers. To the best of my ability I would at lunch time go and talk to them. I always used to be the one to sit with them, I know what I want, don't pull rank and they had to believe it was the way I felt.

The retired banker and his wife recalled their time working as employees in a bank and how they felt being part of a 'big family'. 'It was a very happy family. You gave a hundred per cent, your life revolved around giving a hundred per cent …. Now the employees are certainly not appreciated or even valued,' said his wife.

Respect employees' needs Four participants relate their views in various ways:

> Everyone is [to be] treated with dignity. (Management adviser)

> Treat these people honestly and give them respect. (Retired engineer)

> Provide opportunity for the staff, and provide them with chances to do other things. (Financial analyst)

The fourth, the public nurse, looked into the practical aspect of employees' needs through recognition of the employees' families: 'There was a trend in New Zealand in the 1980s and 1990s where things had become so individually focused that companies forgot that people come from a family – the long hours and the pressure. I think that needs some change.'

Communicate company's plans Four participants believe ensuring employees are kept up-to-date about the company is important. The management adviser said there is a need to have 'clear communication so everyone knows what's going on'. The corporate accountant took this a step further, she said:

> Tell them what the plans of the company are for the future, how the company has performed in the past, and what the company is doing currently and how it may impact on the employees.

Communication of the company's plans to employees can also be seen as a process of 'involving staff in decision making', according to the public nurse. The airline pilot described it as 'letting employees work *with* you rather than working *for* you'. He further explained: 'When everything turns to custard, if people are working for you, they'll back right off and let you go straight down the gurgler. If people work with you, when things go south, they will share the problem and try to recover the problem …. you know, if people work with you, you will recover the situation, get out of it.'

Customers

Five issues on how customers should be treated were derived from the narratives and are listed in Table 6.2.

Table 6.2 Looking after customers

Customer issues	Recognition*
Provide quality products and services	14
Ensure value for money	6
Respect customers' rights	6
Adapt to changing consumer tastes	5
Truthful promotion and product disclosure	5

* Recognition represents the number of participants referring to that issue.

Provide quality products and services A majority (14) of participants indicated that the fundamental responsibility to customers is to provide good service and products. The airline pilot expanded on what he believes makes good products and services: 'You stand by your product, you don't try to be smart. You know, if you make a product and if it is defective, you should make good to the client, not just say "well, it's bad luck".'

Ensure value for money Giving customers good value in what they buy and doing a good job at a reasonable price were standard responses from the six participants raising this issue. The comment from both the retired banker and bank manager – 'don't exploit customers' – captures the essence of value for money.

Respect customers' rights Of the six shareholders who talked about this issue, three referred to the old saying 'the customer is always right'. The other three believe in respecting customers' rights by being 'equitable and fair'; 'treat them in a reasonable way'; and 'put yourself in their position'.

Adapt to changing consumer tastes Five participants said that businesses need to respond to the changing tastes of their customers because 'people's desires are changing', said the marketing consultant. The bank manager used the fast food company McDonalds to make his point:

> McDonalds is suffering at the moment, people are shifting, you go past the new Subways that are being opened at the moment and there are queues out of the door. There is a change in taste. McDonalds stops bringing out new products, keeps charging premium prices for old products that have already gone past the still-developing stage … you've got to keep being innovative.

The public accountant said one of the problems with businesses is that: 'We think we know what they want and we give them what we think they want. We don't listen as well as we should and we don't react to the feedback that we get.'

Two other participants also support the idea that businesses have to be proactive in finding out what consumers want. The housewife said that when she identifies a company she wants to invest in, she looks at it from the consumer's angle and asks: 'Are they making something that is saleable and appeals to consumers?' The public nurse, who strongly believes in conservation, said she appreciates the work of The Warehouse (New Zealand's largest retailer) because 'they do the things that we are looking for – reducing packaging and supporting recycling'.

Truthful promotion and product disclosure Five participants believe these practices are part of the responsibility to be honest with customers: 'be up-front, honest'; 'customers should be informed about what they are getting'.

Product disclosure also means 'Customers should be assured that the products come from somewhere that's okay,' said the housewife shareholder. One other participant (the retired engineer) saw truthful promotion as 'making sure you never sold anything to a customer against his interest' because 'people rely on us to supply the right article and not to over supply and not to push things onto them that they don't need'.

Shareholders

Seven issues of corporate responsibility classified under the shareholder category are presented in Table 6.3.

Maintain long-term growth in share price Steady growth in share price and long-term capital growth are fundamental expectations of 16 participants. Three of these shareholders added that long-term growth in share value is a strong influence in their choice of companies:

> I look for companies that have the potential for going forward, to deliver growth. (Retiree)

> I buy long term. ... I look to the future possibilities, not just today's gain. I would rather see steady satisfactory returns over a period of years. (Manager)

> I buy companies that are bound to go up in the long run. (Retired engineer)

Keep shareholders informed: faults and all 'Keep them well informed,' said the marketing consultant. 'Well-informed' means, according to 13 participants, that shareholders need to know the bad news as well as the good news, and what companies' future plans are.

The retired banker said he would like directors to explain to shareholders any 'hiccups' made by the company. Three other participants share this view:

Table 6.3 Looking after shareholders

Shareholder issues	Recognition*
Maintain long-term growth in share price	16
Keep shareholders informed: faults and all	13
Strive for financial stability of company	12
Accurate and honest financial reporting	7
Provide regular dividend income	6
Base management rewards on performance	6
Base directors' fees on performance	2

* Recognition represents the number of participants referring to that issue.

> They made a couple of blues in Australia but they told us all about it. Okay, you can't win all the time. (Manager)

> Naturally the company is always making its best efforts to make a profit; that is an area that the shareholders, of course, are concerned with. You can try to make a profit but you can't always be sure that you can succeed. But I think it is very important to be honest about the reporting. (IT consultant)

> If you have a temporary blip in your profitability because you are launching a new line or something, then tell the shareholders that. And they will say 'okay, jam for tomorrow'. On the other hand, if you have a sudden windfall profit and you double the shareholders' dividend this year, you should tell them in no uncertain terms that this is exceptional, this is not a guide to future performance. (Marketing consultant)

The future plans of companies is another issue that two participants (the bank manager and the corporate accountant) believe shareholders are interested in: 'they need to know at all times where the company is going'; 'I want to know what their plans are for the future so that I can make a decision as to what I am going to do with that company'.

Three participants view themselves as owners of the companies they invest in which may partly explain why they, and perhaps most other shareholders, want to be kept informed. For instance, the retiree summed up his reason why communication is vital. He said: 'As small shareholders, I believe we view ourselves as business owners and so we should be entitled to a certain degree of communication and to be treated as business owners.'

Strive for financial stability of company As most of the participants are conservative in their risk attitudes, it was not surprising that 12 of them nominated the financial stability of their companies as being important. Shareholders described what they consider as financial stability in different ways: 'nothing fly-by-night, and we are conservative'; 'reliable in finance'; 'growth, but not growth at all costs'; 'make enough money to stay in business'; 'making decisions that are regarded as long-term beneficial rather than short-term damaging'.

Long-term financial stability is used by three shareholders as a criterion in their share-buying decisions:

> The long-term business is the business that counts … I only like long-term, sound businesses. (Manager)

> I am really interested only in fairly long-term investments. (Journalist)

> You [referring to broker] sell me a share that you think will still be all right in 10 years' time. (Retired engineer)

Accurate and honest financial reporting Seven participants said it is important to provide shareholders with accurate and honest financial reports. The architect was straightforward in saying how he felt:

> How should they treat their shareholders? Not to cheat them: misrepresentations of the balance sheet, for instance, so shareholders don't get an annual report which is fudged.

The remaining participants said they, as shareholders, expect 'transparency' and 'informative financial accounts'.

Provide regular dividend income Only six shareholders mentioned that it is important for companies to provide regular dividend income. The remaining participants tend to go for long-term share price appreciation and some explained that the desire for regular dividend income depends on the situation of each individual.

Base management rewards on performance 'Remuneration of executives, remuneration of directors – those sort of things are the things that get people quite upset,' said the corporate accountant. Her views were shared by five other participants:

> I don't mind how much they get paid as long as they are doing a good job and doing the right thing …. The fellow that left AMP got $20 million. That's just crazy. The whole place is falling down and he walks out with it. (Retired banker)

> The ridiculous thing is that in Enron, the CEO's salary was $8 million a year, which is a ridiculous amount. (Airline pilot)

> There should be some sort of incentive but they are over-rewarding themselves. (Tax accountant)

> The CEOs that run the companies and hold it all together do make a huge contribution, but not to the extent of $33 million [referring to an Australian CEO]. (IT consultant)

> A fair proportion of management's remuneration should be held to performance. (Bank manager)

In other words, shareholders do not believe that top management deserves huge salaries and bonuses unless they can justify it with their performance.

Base directors' fees on performance Two shareholders commented that directors are also over-rewarding themselves:

> Some of the so-called bonus arrangements that recently emerged for directors I think are disgusting. What are they doing for their shareholders? (Marketing consultant)

> They don't deserve that proportion – where company directors reward themselves with huge remuneration packages even when the company is not doing well. (IT consultant)

Shareholders are obviously concerned with the current reward system for directors and top management and they want it to be based on performance.

Suppliers

The four responsibilities that shareholders perceive as important when companies deal with their suppliers are listed in Table 6.4.

Pay fair prices Nine participants considered paying suppliers fair prices as fundamental to their companies' dealings with suppliers. Some also added that paying on time is important. For instance, the marketing consultant said: 'Pay them according to accepted terms and conditions, which usually means prompt payment.' For the bank manager and the tax accountant, fair price means that 'suppliers are not exploited' and 'make sure that that's a fair rate as to what is reasonable'.

Two participants do not believe in squeezing suppliers for the lowest price. The management adviser said: 'Accurate work and agreed procedures are far more important to me than the lowest price. If I am paying 15 per cent or 20 per cent above the going rate to get that partnership, that's fine by me. As long as we know we're going to get the job done.' The manager is of a similar view: 'It is no good to skin your suppliers to lower their prices. You've got to be able to know that the

Table 6.4 Looking after suppliers

Supplier issues	Recognition*
Pay fair prices	9
Maintain long-term supplier relationships	4
Give clear purchasing requirements	4
Utilise local suppliers	2

* Recognition represents the number of participants referring to that issue.

person is going to derive enough from the services they give or the goods that they make. If it is not enough, the guy isn't going to be out there to service you.'

Maintain long-term supplier relationships Four shareholders consider building long-term relationships with suppliers as most important. The management adviser and the manager spoke of business experience that indicated its importance:

> I like to think of suppliers as partners … I have got … a supplier who I regard as a real partner. We work well together, we establish procedures. When I need something in a hurry, I get it in a hurry and we communicate well. (Management adviser)

> I go to people long term, I stick with them up to the point that I don't look at the price either. I want satisfaction with the product that I want, the service that I want, and I keep going there. (Manager)

The teacher linked relationship building with suppliers with that of employees: 'I want to think that if the company has this philosophy towards its employees, that philosophy would carry through to its suppliers because suppliers are part of the success or the failure of the company.' The bank manager considered it as a self-protection mechanism: 'They will keep delivering on time to make sure that you are not at risk.'

Give clear purchasing requirements 'A company should ensure that there are clear communications to suppliers,' said the corporate accountant. Clear communications are seen by three other shareholders as 'establishing procedures'; 'be clear about what you want, what quality you want, what quantity and where you want it so there is as little room as possible for misunderstanding' and 'make it absolutely clear what you want them to supply, when you want it supplied, how you want them to supply it and to what standard you want them to supply it'.

Utilise local suppliers Two shareholders simply said they want companies to 'support New Zealand companies' and 'give New Zealand manufacturers a chance'. Similar sentiments would be equally valid in any country.

The Community

The shareholders identified four issues (see Table 6.5) that they felt as desirable in looking after the community. The issues are generally based on a strategic standpoint of improving the company's image rather than for altruistic reasons.

Active support of local community Corporate support for the community, according to eight participants, is demonstrated through employing locals and taking part in community affairs. The marketing consultant said: 'Employ as many locals as possible,' and the retired banker praised a publicly-listed retailer because 'it is employing a lot of people who were not unemployable, but just couldn't get jobs'.

Active involvement with the community includes 'helping the local community where your workers are'; 'be an integral part of the society where the business operates'; 'taking a part in making sure the community is socially cohesive'.

The management adviser was more specific on community involvement: 'The companies which succeed here are the ones that communicate, that talk to the local authority, that talk to the local newspaper, that sponsor the kiddies' Christmas party, that sort of thing, and who are part of the community.'

Donations to charities The issue of corporate philanthropy sparks two separate views. The corporate accountant and the marketing consultant both pointed out that companies should not spend shareholders' money on charities. The marketing consultant's reasons were: 'I think charity is a diversion for senior employees of the company which can take up an awful lot of time which should really be spent doing their number one job … charity is not the business of the company.' On the other hand, four participants said they have 'no problem' with a company making donations to various welfare charities, but make the point that it be 'within reason'. The retiree's response is typical of this group of shareholders: 'People as individuals give to charities and there is no reason why corporates shouldn't have a similar outlook. It doesn't have to be large, it should be within its means.'

Table 6.5 Looking after the community

Community issues	**Recognition***
Active support of local community	8
Donations to charities	4
Participate in staff community-work programmes	3
Sponsorships	3

* Recognition represents the number of participants referring to that issue.

Participate in staff community-work programmes Three participants said that companies should get their staff involved in community work. The housewife's suggestion was: 'The staff should have a day where they do something for charity or the community.' The teacher and the public nurse, who are conservationists, said they were impressed by a major retailer when they found they were working side-by-side with its staff in a native trees planting programme.

Sponsorships The architect considers corporate sponsorship produces 'win-win' situations and he found support from both the retiree and the public nurse: 'It's always nice to know that the company is trying to make some effort to improve its public image'; 'I think it is a huge role for companies in terms of sponsorship and it is a big payoff that they get advertising and get recognised for their public spirit.'

The Environment

All participants agree that there is corporate responsibility for the protection of the environment, but their opinions about the way their companies should contribute to environmental sustainability varies. At one end of the spectrum were those who said companies do not need to do any more than is necessary. The corporate accountant's response is typical of this group: 'I don't think there is a requirement for them to make it any better than what it is.'. At the other end of the spectrum are a few who want companies to initiate positive environmental changes – in the terms of the architect, 'positively take up environmental concern'. Table 6.6 lists the four environmental responsibilities identified by the shareholders.

Minimise harm to the environment The theme drawn from the 14 participants' responses is that companies should strive to minimise any negative impact on the environment from their operations. For example:

> [M]itigate any effects that [operations] may have on the environment. (Retiree)
>
> I don't think that companies should be doing anything which harms the environment. (Manager)

Table 6.6 Looking after the environment

Environmental issues	Recognition*
Minimise harm to the environment	14
Comply with environmental law/regulations	5
Initiate positive environmental change	4
Reduce, recycle and reuse	3

* Recognition represents the number of participants referring to that issue.

> [It] has the obligation to control effluent and pollution. (Public accountant)

> It is a hell of a lot better that businesses concern themselves with any ways to make sure their own business doesn't cause any negative impacts. (IT consultant)

> It has got to be aware of the impact it is having and try to operate sustainably. (Corporate accountant)

However, four shareholders make the point that companies should not be held responsible for any negative environmental impacts which are not of their own making. For instance: 'I don't think it is the responsibility of business to take initiatives in areas that are outside their own area of business practice' and 'I don't go along with some of the unreasonable, some of this sort of super greenies who say you can't do anything, because then we would end up back in the dark ages.'

Comply with environmental law/regulations 'Staying within the law is a useful starting point,' said the retiree. The comments from three others are: 'government should have regulations in place that require compliance'; 'the law should do that'; 'should observe environmental laws'.

Though it may be assumed that companies have to abide by the stipulations of environmental law and regulations, the fact that five participants brought up the issue of environmental law compliance can be attributed to shareholders' concerns that some companies are breaking the law. This is illustrated by the comment of the architect: 'My greatest concern is where companies cheat on the Resource Management Act and don't do what they are required to do under the conditions of consent.' Also, the widely reported case where a publicly-listed New Zealand company, Nuplex Industries Limited, was fined NZ$55 000 for polluting the environment (Beston, 2003) raised shareholders' awareness of corporate misbehaviour.

Initiate positive environmental change The architect contrasts the two extremes of corporate actions: on one side are those that 'damage the environment' and on the other side are those that 'actually assist the environment in making it better in a positive way'. The four shareholders who want companies to initiate positive environmental change perceive it as an important contribution to furthering protection of the environment. They relate it to companies which are sponsoring community projects in the conservation and planting of native trees and modifying practices to be more environmentally sustainable.

Two participants consider positive change as planning for the future. The teacher, with his wife (the public nurse) interjecting her agreement, said:

> We both feel very strongly about what that company [a publicly-listed New Zealand company] is doing for the environment. It seems to be doing a lot of things that are really important for the future.

Another participant, the tax accountant, said companies should spend more money on research and development: ‘We know cars are detrimental to the environment but we all want them …. Build a better car! The fuel cell technology is there but not a lot is spent on research; that will really do some benefit rather than planting a couple of trees.’

Reduce, recycle and reuse ‘Look at the plastic bags. If we can do away with them, the country will be a hell of a lot better off,’ is the opinion of the retired banker. Two other shareholders, the housewife and the public nurse, expressed similar views. They are concerned about the materials that go into packaging which, they say, end up in landfills. The housewife wants change for packaging ‘right down to the basic small things like plastic bags up to other big things’. The public nurse simply said: ‘The thing is to reduce, recycle and reuse.’

Report Social and Environmental Performance

In concluding this discussion it needs to be pointed out that the importance of social environmental reporting was overlooked by the interviewee shareholders. Following is a discussion on why this issue was added to the list of 30 corporate responsibilities and incorporated in the questionnaire survey in Phase Two.

In contrast to the number of interviewee shareholders who stressed it was important for companies to produce accurate and honest financial reports, not one single participant brought up the issue of social and environmental performance reporting as a corporate responsibility. Maybe one of the reasons for this apparent omission is that shareholders are conditioned by what is presented to them. In referring to the New Zealand reporting situation, Roper (2004: 23) points out: ‘Company reporting tends to indicate a strong weighting toward economic imperatives at the expense of social and environmental indicators.’ Furthermore, Low and Davenport (2003), summarising the New Zealand experience of producing stand-alone triple-bottom line/sustainability reports, listed only seven companies that have taken such initiatives.

The fact that the participants in Phase One do not seem to embrace social and environmental disclosure is quite similar to a finding by Tippet (2000) that Australian individual shareholders are ‘not concerned’ with the failure of a company to conduct a social or environmental audit.

As it is becoming a world-wide trend for companies to adopt triple-bottom line reporting, and the disclosure of environmental and social performance is becoming a practice recommended by organisations such as the Global Reporting Initiative, I believed this issue to be too important to be excluded from the list of responsibilities. Therefore it was added to the list and incorporated into the questionnaire survey in Phase Two in order to find out whether the other shareholders might consider it to be important.

Core List of Corporate Responsibilities

In the questionnaire survey, respondents were requested to specify any responsibilities that they felt should be added to the list of responsibilities identified under each of the six stakeholder groups. Responsibilities that were very similar to those already listed in the questionnaire were grouped into the first category and any new items were put into the second category.

A total of 28 other first category responsibilities to employees were nominated by the respondents in Phase Two. A majority of the items relate to *providing equitable wages and rewards* and such items as providing employees with stock options. The linking of rewards to set standards or to performance reviews was typical. 'Must invest in its staff' is the *provision of training and development*. 'Provide a happy place to work' and 'approachable management' come under *create a family-friendly work environment*. 'Involve staff in future development and company decisions', 'staff participation in innovation and productivity improvement', 'seek employee views as to improvement', and 'encourage suggestions' are all part of the process of *communicating company's plans*. Other suggestions relating to *respecting employees' needs* included 'make employees feel respected', 'create a forum for team building and addressing concerns', 'make employees feel valued' and provide for 'retirement planning', 'pensions', 'advancement', 'opportunities' and 'job satisfaction'.

Twenty extra responsibilities to customers were specified by the respondents. They all fell into the first category and were similar to those already listed in the questionnaire. A majority related to the responsibility of *providing quality products and services*; for instance: 'politeness at all times', 'let customers feel valued', 'safe/non-harmful products'. In fact the most mentioned issue was 'quick' and 'prompt' services, such as 'answer their phones!' 'Openness' and 'informative advertising' were classified as *truthful promotion and product disclosure*.

Eleven other responsibilities to shareholders were included by the respondents. 'Do not defer expenditure or asset maintenance so that company's performance is inflated for the benefit of the CEO's yearly performance payment' relates to *accurate and honest financial reporting*. Two respondents' comments which relate to *keep shareholders informed* are 'keep reports readable' and 'keep public informed too – you can't choose shares if you don't know what is going on'. 'Director performance appraisal', 'do not demand "international" pay scale' and 'CEO's salary should not exceed six times the average paid' fall under the responsibilities to *base directors' fees and management rewards on performance*. The four other items – 'shareholder discounts', 'imputation credits', 'earn rather than buy good PR' and 'treat shareholders as owners' – were all either irrelevant or too vague to be considered as responsibilities to shareholders.

Twenty three extra items on suppliers were recommended by the respondents. Some respondents seemed opposed to a practice of paying 'fair' prices to suppliers; more than half of the other items suggested 'pay market price' or employ strategies to secure the best deal from the market. Typical comments included 'get a good deal', 'utilise competitive suppliers' and 'get products at best price'. I feel that by replacing 'fair' price with 'market' price, it loses the spirit of aiming for a higher level of corporate responsibility. Therefore *paying a fair price* stays in the list of responsibilities to suppliers. Other items mainly related to paying on time which can be seen as contributing to *maintaining long-term supplier relationships*. 'Ensure suppliers meet standards' and 'inform them of dissatisfaction' are part of *giving clear purchasing requirements*. The one item that is new to the list of responsibilities is 'check suppliers' environmental records' and it is debatable whether this can be considered a responsibility to suppliers. It may be more appropriate to categorise it under *initiating positive environmental change*, which has already been included as an environmental responsibility.

Of the nine extra items on responsibility to the community, five were suggestions related to the practical implementation of *active support of local community*: 'recognise academic achievement in community', 'local sponsorship', 'listen and act', 'give young people opportunity to work' and 'responsive to community needs'. The remaining four items, though, cannot be classified as support; they suggest that companies need to take the local community into consideration: 'mindful of company impact on community', 'open communication', 'be a good neighbour' and 'inform community of changes that may affect them'. These items belong to the first category, which are items that are already in the list of corporate responsibilities.

The ten extra nominations as responsibilities to the environment were first category items: 'avoid pollution' and 'conserve vehicle use' can be placed under *minimise harm to the environment*. 'Strive for efficiency in energy use', 'limit packaging to essentials' and 'reduce packaging' relate to *reduce, recycle and reuse*. 'Educate customers to recycle'[1], 'train all employees on environmental issues and awareness', 'sponsor environmental initiatives' and 'contribute to environmental support programmes' are steps toward *initiating positive environmental change*.

My conclusion is that the list of corporate responsibilities is representative of the core issues perceived as important by the shareholders when taking into consideration that almost all of the other items suggested by the respondents were either already contained in the list or did not really add a new perspective to the list.

Looking After Stakeholders

In the Phase Two questionnaire survey, shareholders were presented a list of items identified as responsibilities to the six main stakeholders – employees, customers, shareholders, suppliers, the community and the environment. The shareholders were first asked to rate the importance of each of the responsibilities on a scale of 1 to 7, where 1 is not important and 7 is extremely important (the *mean*s are shown

1 This item was suggested by two separate respondents.

in the second column in each of the six tables in this section). Shareholders were then asked to identify the *one responsibility* that is the most important to them. The percentage of shareholder nominations for the responsibility that is most important to them is shown in the fourth column in the relevant tables in this section.

Among the six responsibilities to employees, to ensure *a healthy and safe workplace* is rated at the top of the list and has the highest number (27 per cent) of respondents singling out this item as most important to them (refer to Table 6.7). This is then followed by *providing equitable wages and rewards* and *training and development*. At the bottom of the list of important responsibilities to employees is *create a family-friendly work environment*; only 5.6 per cent of the shareholders consider this as most important to them.

It appears from the ranking orders of the *means* and the percentage of nominations by shareholders on the issue that is most important to them that shareholders perceive the six responsibilities to employees in two tiers. The first tier contains the top three issues – *healthy and safe workplace, equitable wages and rewards* and *training and development* – that are seen as fundamental responsibilities to employees. The second tier includes *respect employees' needs, communicate company's plans* and *create family-friendly work environment*. They are viewed as desirable responsibilities for companies to take on.

In dealing with customers, *provision of quality products and services* and *truthful promotion and product disclosure* are the two most important responsibilities (refer to Table 6.8). These two issues also found support from about two-thirds of the respondents who indicated that they were most important to them. How shareholders view the importance of looking after customers can be clearly identified from their ratings: all the issues in this category are close to the 'extremely important' end of the scale ($M > 6.0$).

The most important responsibility in dealing with shareholders is *accurate and honest financial reporting*; this is followed, in order, by *striving for financial*

Table 6.7 Employee issues in order of importance

Employees	***Mean***	***SD***	**The most important**	
			%	**Rank order**
Healthy and safe workplace	6.11	1.08	27.00	1
Equitable wages and rewards	5.84	1.18	22.30	2
Training and development	5.75	1.12	15.50	3
Respect employees' needs	5.64	1.12	11.30	5
Communicate company's plans	5.59	1.20	15.30	4
Family-friendly environment	5.03	1.38	5.60	6

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 3 per cent of the respondents did not indicate any item that is most important to them.

Table 6.8 Customer issues in order of importance

Customers	*Mean*	*SD*	The most important	
			%	Rank order
Quality products and services	6.50	0.75	46.80	1
Truthful promotion and product disclosure	6.28	0.97	17.40	2
Adapt to changing consumer tastes	6.13	0.92	13.70	4
Value for money	6.10	1.00	13.90	3
Respect customers' rights	6.01	0.95	3.20	5

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 5 per cent of the respondents did not indicate any item that is most important to them.

Table 6.9 Shareholder issues in order of importance

Shareholders	*Mean*	*SD*	The most important	
			%	Rank order
Accurate and honest financial reporting	6.80	0.50	36.70	1
Financial stability of company	6.37	0.83	14.90	2
Keep shareholders informed	6.29	0.92	13.30	4
Long-term growth in share price	6.17	0.92	14.90	2
Base directors' fees on performance	6.10	1.12	9.10	5
Base management rewards on performance	6.07	1.12	2.10	7
Regular dividend income	5.70	1.32	6.70	6
Report social and environmental performance	5.10	1.32	1.20	8

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 1.1 per cent of the respondents did not indicate any item that is most important to them.

stability of company, keeping shareholders informed and *maintaining long-term growth* in share price (the top four in Table 6.9). *Reporting social and environmental performance* is considered by shareholders as least important.

The respondents were more concerned that their companies supply them with *accurate and honest financial reports* (the highest *mean*) than *social and environmental performance reports* (the lowest *mean*). The highest number (36.7 per cent) of respondents indicated the former as most important to them and the lowest (only 1.2 per cent) consider the latter as important. It seems New Zealand shareholders are no different from their Australian counterparts, who are not concerned whether their companies conduct social or environmental audits or not

(Tippet, 2000). Certainly they did not indicate any reasons for adding this item to the list of corporate responsibilities.

Contrary to the common belief that shareholders are primarily interested only in capital appreciation, *accurate and honest financial reporting* had the highest *mean* rating of all shareholder concerns, while *maintain long-term growth in share price* came fourth. The need for honest and accurate reporting was also rated by the highest number (36.7 per cent) of respondents as most important, compared with 14.9 per cent who opted for *maintain long-term growth in share price.*

Shareholders' rating on the two issues *base directors' fees on performance* and *base management rewards on performance* are close to the extremely important end of the scale (with $M > 6.0$), however, these two issues fade into the background when shareholders have to make a choice of what is most important to them. A total of 79.8 per cent of respondents nominated provision of *accurate and honest financial reports*, *strive for financial stability of company, maintain long-term growth in share price* and *keeping shareholders informed (faults and all)* as most important to them. This indicates that shareholders are more concerned with issues relating to the financial health of their companies than with issues of how directors and management are rewarded.

The *maintenance of long-term growth in share price* was rated as more important ($M = 6.17$, $SD = .92$) than the *provision of regular dividend income* ($M = 5.7$, $SD = 1.32$). This was also shown in the number (14.9 per cent) of shareholders who indicated growth in share price as most important to them as compared with 6.7 per cent who consider regular dividends as a priority. This was unexpected because 35 per cent of the respondents were aged over 65 and most are retirees. A plausible explanation may be that many shareholders consider the money they have invested in the stock market as money they can spare. This was, in fact, pointed out by a few shareholders in Phase One. For example, 'you don't invest in shares when you need to pay for the food or anything else around the place'; 'if something goes wrong, you won't have to miss dinner and that is important'; 'I've got enough of this stuff [money] not to worry whether my share prices fluctuate; I can wait'.

The shareholders did not seem to discriminate between the four responsibilities to suppliers: the range of the *means* is between 5 and 5.7 and *standard deviations* between 1.23 and 1.5 (see Table 6.10). However, when they were asked to single out the one item that is most important to them, the order of importance was reversed. *Maintain long-term supplier relationships* is important to the highest number of shareholders (32 per cent) as compared with the 20.6 per cent who consider *giving clear purchasing requirements* as most important. More shareholders believe that treating suppliers as partners is more important than the mechanics of clearly communicating purchase orders, which is more of an operational matter.

Active support of local community had the highest mean rating ($M = 5.10$) followed by *participating in staff community-work programmes* and *sponsorships*. *Donations to charities* is of the least importance ($M = 4.32$) to the shareholders (see Table 6.11).

Table 6.10 Supplier issues in order of importance

Suppliers	*Mean*	*SD*	The most important %	Rank order
Give clear purchasing requirements	5.71	1.23	20.60	3
Pay fair prices	5.64	1.25	24.90	2
Long-term supplier relationships	5.49	1.33	32.00	1
Utilise local suppliers	5.00	1.50	16.80	4

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 5.7 per cent of the respondents did not indicate any item that is most important to them.

Table 6.11 Community issues in order of importance

The community	*Mean*	*SD*	The most important %	Rank order
Active support of local community	5.10	1.48	52.80	1
Staff community-work programmes	4.71	1.49	19.60	2
Sponsorships	4.43	1.57	14.00	3
Donations to charities	4.32	1.58	7.90	4

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 5.7 per cent of the respondents did not indicate any item that is most important to them.

It seems that shareholders prefer companies to take an active role in the community by providing support or having staff participate in community-work programmes. There was a vast difference between the number of shareholders who indicated *active support of local community* (52.8 per cent) as most important to them and those who prefer *donations to charities* (7.9 per cent). This clearly identifies that shareholders believe active participation as part of the community is likely to be of greater benefit all round than mere financial benevolence.

Minimise harm to the environment had the highest *mean* among the four environmental responsibilities and 46.3 per cent of the respondents indicated that this is most important to them (see Table 6.12). The rank orders based on the *mean* ratings and the percentage of shareholders who support each issue show that there are two tiers in terms of the environmental responsibilities perceived by the respondents. The first tier comprises the top three issues – *minimise harm to the environment, comply with environmental law/regulations* and *reduce, recycle and reuse* – with a total of almost 90 per cent of the respondents considering them as most important. The second tier holding just the one responsibility to *initiate positive environmental change* has the support of only a minority (9.5 per cent) of the respondents. These two distinct tiers of environmental responsibilities clearly

Table 6.12 Environmental issues in order of importance

The environment	*Mean*	*SD*	The most important %	Rank order
Minimise harm to the environment	6.27	1.04	46.30	1
Comply with environmental law/regulations	6.21	1.09	24.30	2
Reduce, recycle and reuse	6.02	1.07	19.00	3
Initiate positive environmental change	5.52	1.40	9.50	4

Note: The percentage shown in the fourth column does not add to a total of 100 per cent because 0.9 per cent of the respondents did not indicate any item that is most important to them.

show that most shareholders believe there are limits to the degree of responsibility companies should assume in looking after the environment.

To sum up this section, shareholders indicate that it is most important to provide a healthy and safe workplace for employees, provide quality products and services for customers, accurate and honest financial reporting for shareholders, give clear purchasing requirements to suppliers, actively support local communities and minimise harm to the environment.

In order to discover the one stakeholder group that shareholders think should receive priority treatment from companies, shareholders were asked to rank the six groups of stakeholders in order of priority (1 = highest priority). In the results (see Figure 6.1), top priority goes to customers, then shareholders and then employees.

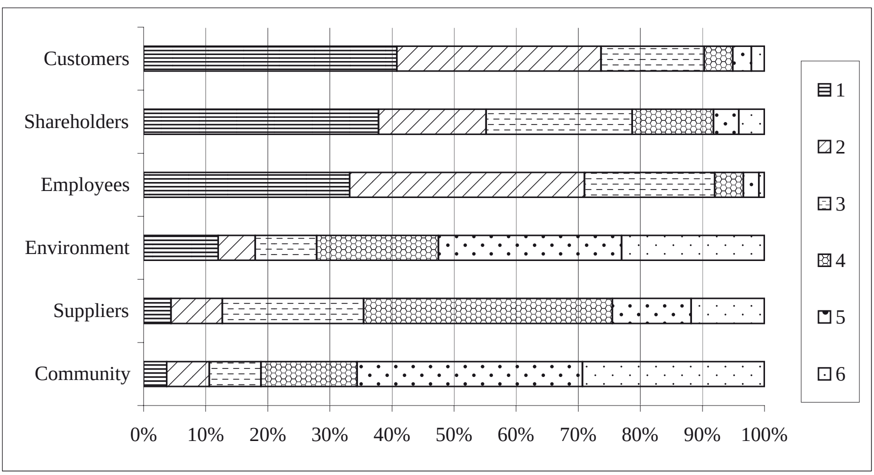

Figure 6.1 Priority ranking on stakeholder groups

By percentage, respondents ranked customers (92 per cent), employees (91 per cent) and shareholders (79 per cent) as the three most important stakeholders. The environment came fourth in terms of priority, followed by suppliers and the community. These results echo the opinions of the shareholders in Phase One. A comment from the retiree sums up the situation: ‘Customers come first, employees come second. It’s hard after that. Shareholders are important but so is the community and so is the environment and so are the suppliers.’

Corporate Responsibility Priorities

In order to throw light on how shareholders perceive the importance of the 31 corporate responsibility issues in relative terms outside of the stakeholder groupings under which they have been analysed thus far, Table 6.13 lists, in order of importance, the *means* and *standard deviations* of each issue.

The *means* in Table 6.13 shows that *accurate and honest financial reporting* is at the top of the list ($M = 6.8$). Contrary to the common assumption that shareholders are interested only in capital growth, *to maintain long-term growth in share price* comes eighth on the list ($M = 6.17$). In fact, *strive for financial stability of company* (third on the list, $M = 6.37$) and *keep shareholders informed* (fourth on the list, $M = 6.29$) both attracted higher ratings than *long-term growth in share price*.

The other issues listed in the top ten can be clearly identified as fundamental corporate practices – looking after the customers not just by *providing quality products and services* and *truthful promotion and product disclosure*, but also *to adapt to changing consumer tastes*; looking after employees by *ensuring* a *healthy and safe workplace*; looking after the environment by *minimising harm to the environment* and *complying with environmental law and regulations*.

None of the issues relating to the community and suppliers are included in the top ten. In fact, the respondents consider looking after the community of lesser importance than fundamental corporate practices. *Participating in staff community-work programmes*, *sponsorships* and *donations to charities* are at the bottom of the list of 31 responsibilities. That the practices aimed at building relationships with the community are considered as the least important by shareholders reflects the reality that they are usually undertaken by companies on a voluntary or discretionary basis. The list of 31 corporate responsibilities will be presented in the form of a hierarchy of shareholders’ concerns under the categories of economic, legal, ethical and discretionary responsibilities and further discussed in Chapter 9.

Conclusion

The first and foremost corporate responsibility is seen by shareholders as the provision of *accurate and honest financial reports*. It was quite unexpected that my inquiry would indicate clearly that shareholders place *accurate and honest*

Table 6.13 Means and standard deviations of corporate responsibilities

Corporate Responsibility issues	*Mean*	*SD*	Importance
Accurate and honest financial reporting	6.80	0.50	1
Quality products and services	6.50	0.75	2
Strive for company financial stability	6.37	0.83	3
Keep shareholders informed: faults and all	6.29	0.92	4
Truthful promotion and product disclosure	6.28	0.97	5
Minimise harm to the environment	6.27	1.04	6
Comply with environmental law/regulations	6.21	1.09	7
Long-term growth in share price	6.17	0.92	8
Adapt to changing consumer tastes	6.13	0.92	9
Ensure healthy and safe workplace	6.11	1.08	10
Base directors' fees on performance	6.10	1.12	11
Value for money	6.10	1.00	11
Base management rewards on performance	6.07	1.12	13
Reduce, recycle and reuse	6.02	1.07	14
Respect customers' rights	6.01	0.95	15
Equitable wages and rewards	5.84	1.18	16
Training and development	5.75	1.12	17
Clear purchasing requirements	5.71	1.23	18
Regular dividend income	5.70	1.32	19
Respect employees' needs	5.64	1.12	20
Pay fair prices	5.64	1.25	20
Communicate company's plans to employees	5.59	1.20	22
Initiate positive environmental change	5.52	1.40	23
Maintain long-term supplier relationships	5.49	1.33	24
Report social and environmental performance	5.10	1.32	25
Active support of local community	5.10	1.48	25
Create family-friendly work environment	5.03	1.38	27
Utilise local suppliers	5.00	1.50	28
Staff community-work programme	4.71	1.49	29
Sponsorships	4.43	1.57	30
Donations to charities	4.32	1.58	31

financial reporting ahead of *maintaining long-term growth in share price*. This is inconsistent with the assumption that shareholders are primarily interested in maximising profits through appreciation of their share values.

It is also important to shareholders that employees are provided with *a healthy and safe workplace* and that customers are offered not only *quality products and services*, but also *truthful promotion and product disclosure*. Two environmental responsibilities – *minimise harm to the environment* and *comply with environmental law and regulations* – are among the top ten priorities of shareholders. This illustrates that corporate environmental responsibility is an important issue for shareholders. However, shareholders draw a line on the extent to which companies should be involved in environmental issues because *initiation of positive environmental change* is among the group of issues that are of lesser importance to shareholders.

The issues that are of lesser importance to shareholders can be seen as being considered by them as add-on practices or discretionary responsibilities. The bottom ten issues include two dealing with employees (*communicate company's plans* and *create family-friendly work environment*); one relates to the environment (*initiate positive environmental change*); two relate to suppliers (*maintain long-term supplier relationships* and *utilise local suppliers*); and four relate to the community (*active support of local community, staff community-work programme, sponsorships* and *donations to charities*). The majority of shareholders do not seem to be highly supportive of the corporate responsibility to *report on social and environmental performance* and so it is among the list of discretionary responsibilities.

The findings of each of the three strands of inquiry have now been reported: Chapter 4 on shareholders' values, Chapter 5 on qualities of directors and this chapter on shareholders' attitudes to corporate responsibility. The interweaving of these three strands creates a web of interrelationships between the items contained within the three strands. The next chapter explores these interrelationships through the application of factor analysis.

Chapter 7
Merging the Three Strands

> It is most likely that the economic mind is driven by a mixture of motives, *homo economicus* and *homo psychologicus* entwined: we are selfish *and* generous, base *and* aspiring, calculating *and* impetuous, ignorant *and* insightful …. As psychologists, we believe choices are determined not just by economic antecedents but by attitudes, values, beliefs.
>
> Lewis, Webley and Furnham (1995: 6)

Lewis et al. sum up the complexity of human nature: in the economic realm there are two sides to the way we relate to others; the summation is that one side is self-oriented and the other side is others-oriented. The values and corporate responsibility attitudes exhibited by the shareholders who contributed to my inquiry reflect this duality. These shareholders have values that are primarily oriented towards themselves (for example, *a comfortable life*); at the same time they manifest values that are primarily oriented towards others (for example, *contribution to society*). Likewise, with their corporate responsibility attitudes, they believe companies need to *maintain long-term growth in share price* for them; and, for the public good, companies have to *minimise harm to the environment*. The question is: how is it possible to explore the relationships between these items – both self- and others-oriented – to gain a holistic picture of the factors shareholders take into account when they make share-buying decisions?

Factor analysis makes it possible to identify logical combinations of items and give better understanding of the interrelationships among them (Hair et al., 1998). To gain such insight into the interrelationships among the 11 shareholders' values, the nine qualities they expect of their directors and the 31 corporate responsibility issues, factor analysis was conducted on all items (a total of 51) contained in the three strands. Factor analysis is a popular technique adopted by a number of authors to evaluate the extent to which empirical data supports the theorised dimensions of their investigations; it helps to identify dimensions that are latent (Hair et al., 1998). For instance, it was used to determine that a differentiation exists between the terminal and instrumental values nominated by Rokeach (see Munson and Posner, 1980); to identify the dimensions underlying a modified list of Rokeach's values (Braithwaite and Law, 1985); to determine the distinguishable dimensions of Kahle's list of values that includes internal or external orientations (Homer and Kahle, 1988; Madrigal and Kahle, 1994); and the underlying dimensions of CEO values that are self-interested or others-regarding in focus (Agle et al., 1999).

By merging the three strands of this inquiry and going through the factor analysis process, the underlying structure of the web of interrelationships among the values held by shareholders, the qualities shareholders expect of company directors, and their corporate responsibility attitudes, can be identified. This provides insight into the dual orientations of shareholders and points to the patterns of factors they take into account when they make share-buying decisions.

This chapter presents the results of the factor analysis. It first discusses the Principal Components Analysis adopted in analysing the data. This is then followed by interpretation of the eight dimensions that underlie the structure of the web created by merging the three strands of inquiry. The final part of the chapter reports results of the cross-validation of the dimensions underlying the structure of the web. The conclusion is that each dimension reflects a logical combination of items that is interpretable and each is relevant to shareholders in their share-buying decisions. It shows both the self- and others-oriented sides of the shareholders and the interrelationships between shareholders' motivational values and their attitudes to corporate responsibility.

Principal Components Analysis (PCA)

In order to gain some insight into the structure underlying the merging of the three strands which form the web, PCA was applied to the data set comprising a total of 51 items (11 shareholders' values, 9 directors' qualities and 31 corporate responsibility issues). The use of PCA also provides a means of reducing the number of items to a smaller but still representative set.

The set of 51 items was first assessed for internal consistency. The results yielded a Cronbach's alpha of .9486 which is much higher than the generally acceptable limit of .70 (Hair et al., 1998; Cronk, 2004).

With the aim of deriving a set of factors that is representative, yet parsimonious, the criteria recommended in Hair et al. (1998) and Blaikie (2003) were adopted in assessing whether an item should be deleted. The first of the criteria is that the communality cutoff point be set at .50. The reason is that items with communality values less than .50 are considered as not having sufficient explanatory power and should thus be eliminated. The second criterion is that the minimum acceptable level for factor loadings be .40. Though loadings of .30 are acceptable, it is common for .40 to be used (for example, Caldwell and Clapham, 2003; Madrigal and Kahle, 1994). The last criterion is that items which have multiple moderate loadings should be deleted. Items that did not meet any one of these three criteria were excluded from further analysis.

Prior to conducting PCA on the ratings of the 51 items, the KMO (Kaiser-Meyer-Olin) measure of sampling adequacy and Bartlett's test of sphericity were calculated. It is futile to conduct factor analysis if the KMO value is less than .50, and also if the results of the Bartlett test fail to reject the hypothesis that there are no correlations between variables at $p < .05$ (Corston and Colman, 2003). The results of both tests on all 51 items gave a KMO value of .93 and a significance level at $p < .001$ from the Bartlett's test. Accordingly, factor analysis could then proceed.

By setting eigenvalues at a minimum of 1, PCA with varimax rotation extracted 11 factors which accounted for 63.47 per cent of the variance of the items. An examination of the factor matrix showed that *contribution to society* has multiple loadings of less of .40 and so it was a candidate for deletion. The last factor in the matrix was *a prosperous life* which stood alone as one factor. As pointed out by Hair et al. (1998), only those factors representing meaningful relationships should be interpreted. Hence, *a prosperous life* was eliminated in the next process.

Subsequent PCA on the 49 items left resulted in 10 factors accounting for 62.64 per cent of the variance of the items. The communality of *family security* was .48 which did not reach the cutoff point set at .50; six items (*ensure value for money, truthful promotion and product disclosure*, *respect customers' rights, keep shareholders informed, pay fair price,* and *an active life)* had multiple moderate loadings – these items were thus eliminated.

The next PCA on the 42 items remaining yielded nine factors and a variance of 62.81 per cent which was slightly better than the previous result. However, both *give clear purchasing requirements* and *provide regular dividend income* had moderate loadings over a number of factors and so had to be removed from further analysis. Furthermore, *adapt to changing consumer tastes* stood alone as one factor, and could therefore be disregarded.

As a result of the PCA process, eight corporate responsibilities and four shareholders' values were eliminated. Six of the eight deleted corporate responsibilities relate to dealings with customers and suppliers; and the other two relate to shareholders. The elimination of these eight items – *ensure value for money, respect customers' rights, truthful promotion and product disclosure, adapt to changing consumer tastes, pay fair prices, give clear purchasing requirements to suppliers*, *regular dividend income* and *keep shareholders informed* – makes the list of corporate responsibilities smaller but still representative. It can also be argued that some of those deleted items are really more basic business practices than responsibilities.

The four shareholders' values eliminated from the PCA process are all motivational values. While shareholders consider *an active life* and *contribution to society* as important in their personal lives, these two motivational values may not be of direct practical relevance to share-buying decisions. Though *family security* (taking care of loved ones) was highly rated by shareholders as a motivational value (see Table 4.3, page 54), as an item with a communality value of .48 it does not provide sufficient explanatory power for it to be included in the factor analysis. A plausible explanation is that the drive to take care of loved ones can apply only to those shareholders who actually have loved ones (usually family attachments). This motivational value may not even exist in certain shareholders' systems of values. The IT consultant who took part in Phase One of the inquiry is an example. She said: 'I'm living by myself so I am not responsible for other people. I don't have personal responsibilities for family members or for anybody else in terms of individual dependence.' The teacher and his wife (the public nurse) are similar. They held *contribution to society* and *a world of beauty* as their motivational values, but made no reference to *family security*. This can be explained from their narrative: 'We don't have children, so we have more time to be involved in community projects.' The elimination of *a prosperous life* was not unexpected because it was not highly rated by shareholders as influencing either their lives or their investment decisions.

A final run of PCA on the remaining 39 items identified eight factors accounting for 62.17 per cent of the variance. These eight factors form an interpretable structure underlying the web formed from the three strands of inquiry.

Interpreting the Structure of the Web

Table 7.1 shows the eight factors that each represents a dimension of the web:

D1 – community/supplier relations
D2 – governance fundamentals
D3 – employee well-being
D4 – green/social values
D5 – effective directing
D6 – guiding values
D7 – the economic self, and
D8 – performance rewards.

What follows is an overview of the web structure, followed by a discussion of each dimension.

The nine qualities of directors are separated into two distinct dimensions (D2 and D5). The six responsibilities towards employees identified in this inquiry remain intact as one dimension (D3). The four responsibilities to the community and the two for suppliers are grouped together (D1). To reward directors and managers in accordance with their performance forms a distinctive dimension (D8). Though the four shareholders' guiding values stay as one dimension (D6), the three shareholders' motivational values are separated into two dimensions with two linking to corporate environmental responsibilities (D4) and the other to economic responsibilities (D7). In essence, the dimensions can be conceptually defined and provide empirical support to the theoretical concepts of corporate governance, corporate social responsibility and human values.

Though it was not the intention of the inquiry to investigate how individual shareholders view corporate governance, it was evident from the results that shareholders' perceptions of corporate governance are revealed through the qualities they expect of their directors and their desire that directors' fees and management rewards should be based on performance. It is beyond the scope of

Table 7.1 Factor loadngs of the 39 items

	Factors							
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Sponsorships	.790							
Donations to charities	.775							
Staff community work	.735							
Active support local community	.713							
Utilise local suppliers	.679							
L-T supplier relationships	.600							
Integrity		.827						
Openness		.793						
Accountability		.659						
Accurate and honest fin report		.591						
Competence		.546					.401	
Training and development			.704					
Healthy and safe workplace			.684					
Equitable wages and rewards			.636					
Communicate company’s plans			.623					
Respect employees’ needs			.584					
Family-friendly work env			.561					
Minimise harm to env				.671				
Reduce, recycle and reuse				.642				
Comply with env law/regs				.623				
Initiate positive env change	.406			.593				
World at peace				.540				
World of beauty				.533				
Report social and env perf				.472				
Innovation					.695			
Leadership					.695			
Prudence					.646			
Commitment					.597			
Courage		.404			.534			
Excellence						.728		
Honesty						.702		
Fairness						.683		
Independence						.599		
Comfortable life							.725	
Quality product and services							.529	

Table 7.1 ***Concluded***

L-T growth in share prices							.495	
Strive for fin stability of co.							.426	
Mgmt rewards on perf								.894
Directors' fees on perf								.881
Eigenvalues	12.11	3.30	1.82	1.66	1.47	1.40	1.27	1.21
% of variance	31.04	8.47	4.67	4.26	3.77	3.59	3.26	3.10
Cumulative %		39.52	44.17	48.45	52.22	55.80	59.06	62.17
Factor dimensions	D1: Community/supplier relations				D5: Effective directing			
	D2: Governance fundamentals				D6: Guiding values			
	D3: Employee well-being				D7: The economic self			
	D4: Green/social values				D8: Performance rewards			

Note: for ease of interpretation, loadings of less than .40 are not shown.

this book to delve deeply into the literature of corporate governance, but how this research distinguishes the three dimensions 'governance fundamentals', 'effective directing' and 'performance rewards' warrants some further discussion.

Since the highly publicised corporate collapses of Enron, WorldCom and Tyco in the USA, HIH Insurance in Australia and Parmalat in Italy, the structural approach to the formulation of independent boards has been questioned by many authors (Sonnenfeld, 2002; Finkelstein and Mooney, 2003; Ingley and van der Walt, 2003; Flanagan et al., 2004). These authors separately say that companies which establish boards that conform purely with the structural approach do not necessarily thereby achieve good or effective governance. They point to a need to consider the personal values and behavioural aspects of directors. According to Finkelstein and Mooney (2003), boards are only as good as the people who sit on them. Sonnenfeld (2002: 109) argues that the key to good governance is not structural, it is social. His emphasis is on 'respect, trust and candor' and it is a 'virtuous cycle in which one good quality builds on another'.

Other authors also draw out the attributes of directors that are important for an effective board: drive and openness, capacity for insight, judgment and decision (Flanagan et al, 2004); the integrity to represent shareholders effectively, the courage to speak up to the CEO and management, have the time to serve, have the strategically relevant experience (Finkelstein and Mooney, 2003); incisive thinker, business experience, interpersonal skills, commitment, independence, integrity, lateral thinking (O'Higgins, 2002). In fact, the attributes of directors are also discussed in the principles of corporate governance adopted by many countries. For example, independence of mind is a basic requirement for directors, the other qualities include skills, knowledge, experience and time that a director can contribute to the entity (New Zealand Securities Commission (NZSC), 2004); and 'good corporate governance ultimately requires people of integrity' (ASX Corporate Governance Council, 2007: 21). It is apparent that the attributes of directors form the foundation for good governance and this is reflected in the perceptions of shareholders in this inquiry.

D2 'governance fundamentals' describes the basic requirements of good corporate governance: *integrity, openness, accountability* and *competence* of directors; and *accurate and honest financial reporting*. *Integrity* and *competence* are seen by Colley et al. (2003: 13) as the two most important elements that directors must have. They make the point that 'directors who are "dumb but honest" fail to fulfill their obligations'. Shareholders in this inquiry expect their companies to produce *accurate and honest financial reports*. The need to ensure the integrity of financial reporting is, in fact, one of the principles found in Australia's *Corporate Governance Principles and Recommendations,* (ASX Corporate Governance Council, 2007); New Zealand's *Corporate Governance Principles and Guidelines* (NZSC, 2004), *The Combined Code on Corporate Governance* (Financial Reporting Council, 2006), *OECD Principles of Corporate Governance* (OECD, 2004) and the *Sarbanes-Oxley Act* (2002). Obviously, the provision of an *accurate and honest financial report* is an important component of good governance.

D5 'effective directing' covers the attributes of an effective director, which are identified as *innovation, leadership, prudence, commitment* and *courage*. These attributes are not widely different from those found in Finkelstein and Mooney (2003) and O'Higgins (2002). Effective corporate governance requires directors' independence, those who 'know how to ferret out the truth, challenge one another, and even have a good fight now and then' (Sonnenfeld, 2002: 133). It is not surprising to see *courage (to question, to challenge)* is cross-loaded onto D2 'governance fundamentals' as independence of mind is a basic requirement for directors in good corporate governance.

In D8 'performance rewards', shareholders believe that their directors and senior management should be paid in accordance with their performance. This is a reflection of frequently voiced assertions that high levels of remuneration to chief executives bear little relation to their accomplishments or in shareholder value creation (for example, Hannafey, 2003; Linden and Contavespi, 1991; Lee, 2002); and shareholders want to strengthen the link between pay and performance (Monks and Minow, 2004). In 2003, GlaxoSmithKline was the first major British company to have its executive pay plan rejected by shareholders (Shareholders Reject Glaxo's Executive Pay Proposals, 2003). Indeed, remunerating directors and executives fairly and responsibly is one of the principles of good corporate governance in Australia (ASX Corporate Governance Council, 2007) and New Zealand (NZSC, 2004), and 'aligning key executive and board remuneration with the longer term interests of the company and its shareholders' is a recommendation that can be found in the *OECD Principles of Corporate Governance* (OECD, 2004: 61).

D3 and D1 comprise the corporate responsibilities shareholders perceive as important. D3 ‘employee well-being’ encapsulates how shareholders believe staff of their companies should be treated. It ranges from complying with the basics such as *providing employees with a healthy and safe workplace*, *training and development*, *equitable wages and rewards* to an inclusive approach by *communicating company’s plans, respecting employees’ needs* and *creating a family-friendly work environment*. D1 ‘community/supplier relations’ can be seen as equating with the philanthropic (discretionary) category in Carroll’s CSR Pyramid (1991). Carroll described the ‘discretionary’ aspects as being a good corporate citizen and contributing resources to the community. *Sponsorships, donations to charities, staff community work programme, active support of local community, utilise local suppliers* and *maintenance of long-term supplier relationships* are some prime examples of what Carroll (2004) terms as ‘desired’ corporate social responsibilities.

All four guiding values nominated by shareholders are grouped together in D6 ‘guiding values’. *Honesty* and *fairness* are others-oriented as they represent standards of behaviour that conform with the expectation of society; and *excellence* and *independence* are more related to the standards a person sets for themself.

D4 and D7 are the two most interesting dimensions within the shareholder perceptions web because they provide an insight into the interrelationships among the values that motivate shareholders in their share-buying decisions and the corporate responsibilities that shareholders perceive as important. Both of these areas are at the core of this inquiry. D4 ‘green/social values’ captures the essence of an others-oriented side of the shareholders. The two others-regarding motivational values (*a world at peace* and *a world of beauty*) are interrelated with the four corporate environmental responsibilities. Shareholders want their companies to look after the environment by doing more than just *complying with environmental law and regulations*. They see them also taking active roles such as *reporting on social and environmental performances* and *initiating positive environmental change*. The latter is also loaded on D1 ‘community/supplier relations’ which is a desired responsibility.

D7 ‘the economic self’ is identified with items in each of the three strands this inquiry investigates. It comprises a self-oriented motivational value (*a comfortable life*), a quality of director (*competence*) and three corporate responsibilities (*provide quality products and services, maintain long-term growth in share prices* and *strive for financial stability of company*). The economic self, interested in the financial aspects of the company, is clearly evidenced in this dimension. Nevertheless, this ‘economic self’ is different from the pure form of *Homo Economicus* in that they are not motivated by greed to seek every single economic advantage. The self-motivating value, *a comfortable life* (financially secure, content) as distinguished from *a prosperous life* (affluent, wealthy) is associated with the long-term financial aspects of the company: *to strive for company financial stability* and *to maintain long-term growth in share price*.

Moreover, it is reasonable to expect that providing customers with *quality products and services* can be considered as having ‘a direct positive economic impact’ (Schwartz and Carroll, 2003) and is fundamental to the economic sustainability of the company. *A priori*, the *competence* of directors (refer to the cross-loading in Table 7.1) is required to achieve the long-term success of the company.

These eight dimensions underpin the web created by the merging of the three strands of this inquiry. They provide direct insight into the interrelationships among the items. The most important discovery from the PCA results is that the ‘green/social values’ and ‘the economic self’ indicate that there is a logical link between shareholders’ motivational values and their views of corporate responsibility. The ‘green/social values’ dimension shows the relationships between shareholders’ others-oriented motivational values (*a world at peace* and *a world of beauty*) and their perceived views of corporate environmental responsibilities. On the other hand, there is ‘the economic self’ who is motivated by *a comfortable life* and relates themself to the economic sustainability of their companies.

The next step was to assess the robustness of the eight dimensions of the web.

Split-sample Validation

The web into which the three strands merged was derived from the PCA of a sample of 438 respondents. In order to assess the stability of the underlying structure of the web across the sample, split sample analysis suggested in Hair et al (1998) was adopted in the validation process. The sample of 438 respondents was divided into two equal groups of 219 respondents (Split Sample 1 and Split Sample 2). PCA with varimax rotations was applied to the two groups and the results were then compared with those identified under the ‘total sample’ (see Table 7.2).

Overall, the factor loadings and underlying dimensions in the three samples (total sample, Split Samples 1 and 2) are quite comparable. Results in Split Sample 1, in particular, are almost a direct replication of the total sample. The differences between Split Sample 2 and the other two samples are highlighted in bold type in Table 7.2. The notable difference is that nine factors were extracted from the data in Split Sample 2 as compared to eight in the total sample and Split Sample 1. The difference arises from the exclusion of two social values (*a world at peace* and *a world of beauty*) from the ‘D4 – green/social values’ to form a separate factor. The other major differences between Split Sample 2 and the other two samples appear to be relatively minor: *respect for employees’ needs* is grouped under ‘D1 – community/supplier relations’ instead of ‘D3 – employee well-being’; *strive for financial stability of company* is included in ‘D4 – green/social values’ rather than ‘D7 – the economic self’. Taking into consideration the comparability of the results of the three samples, the dimensions underlying the shareholder perceptions can be assumed to be stable across the sample of respondents.

Table 7.2 Validation of PCA by split samples

	Total sample		Split sample 1		Split sample 2	
Dimensions	**Loading**	**Cross-load**	**Loading**	**Cross-load**	**Loading**	**Cross-load**
D1: Community/supplier relations						
Sponsorships	.790		.838		.743	
Donations to charities	.775		.790		.761	
Staff community work	.735		.759		.722	
Active support local community	.713		.732		.713	
Utilise local suppliers	.679		.626		.705	
L-T supplier relationships	.600		.575	.407 (D5)	.608	
D2: Governance fundamentals						
Integrity	.827		.845		.835	
Openness	.793		.772		.820	
Accountability	.659		.718		.521	
Accurate and honest fin report	.591		.628		.431	.402 (D7)
Competence	.546	.401 (D7)	.521	.481 (D7)	.590	
D3: Employee well-being						
Training and development	.704		.730		.598	
Healthy and safe workplace	.684		.710		.732	
Equitable wages and rewards	.636		.691		.561	
Communicate company's plans	.623		.502	.497 (D5)	.647	
Respect employees' needs	.584		.614		**.413 (D1)**	
Family-friendly work env	.561		.501		.539	.414 (D1)
D4: Green/social values						
Minimise harm to env	.671		.618		.711	
Reduce, recycle and reuse	.642		.646		.659	
Comply with env law/regs	.623		.579		.636	
Initiate positive env change	.593	.406 (D1)	.641	.457 (D1)	.596	
World at peace	.540		.463		**.592 ***	
World of beauty	.533		.510	.447 (D6)	**.588 ***	
Report social and env perf	.472		.503		.435 (D1)	.412 (D4)
D5: Effective directing						
Innovation	.695		.734		.750	
Leadership	.695		.628		.757	
Prudence	.646		.664		.565	
Commitment	.597		.572		.589	
Courage	.534	.404 (D2)	.631		.482 (D2)	.446 (D5)
D6: Guiding values						
Excellence	.728		.725		.745	
Honesty	.702		.725		.524	.455 *
Fairness	.683		.741		.479	.467 (D4)

Table 7.2 ***Concluded***

Independence	.599	.587	.402 (D7)	.704	
D7: The economic self					
Comfortable life	.725	.760		.527	
Quality product and services	.529	.439		.660	
L-T growth in share prices	.495	.446		.554	.462 (D5)
Strive for fin stability of co.	.426	.463	.417 (D5)	**.556 (D4)**	
D8: Performance rewards					
Mgmt rewards on perf	.894	.881		.862	
Directors' fees on perf	.881	.868		.858	

Note: * represents the 9th factor extracted in Split Sample 2. The brackets ( ) identify the dimension to which the item belongs.

Conclusion

The eight dimensions which resulted from PCA provide direct insight into the interrelationships among the items contained in the three strands of this inquiry (see Figure 7.1). Each dimension reflects a logical combination of items that is interpretable and each is relevant to shareholders in their share-buying decisions. Shareholders' views of corporate governance are represented in 'governance fundamentals', 'effective directing' and 'performance rewards'. Shareholders' perceptions of corporate social responsibility, separated from economic responsibilities, can be found in 'community/supplier relations' and 'employee well-being'. The self-orientation/others-orientation duality of shareholders is represented by the dimensions 'the economic self' and 'green/social values'. The standards that guide behaviour are grouped under 'guiding values'.

The most important finding from the factor analysis is that by exploring the interrelationships among the values of shareholders, the qualities expected of directors and issues of corporate responsibility, the existence of the two dimensions of shareholders' values thrown up by this inquiry has been confirmed. There are both self- and others-oriented sides to each individual shareholder. The self-oriented side is found in 'the economic self' who strives for *a comfortable life* and has concerns about the economic aspects of corporate responsibility (*provide quality products and services, maintain long-term growth in share price* and *strive for financial stability of company*). The others-oriented side is shown by the 'green/social values' dimension which consists of the motivational values *a world of beauty* and *a world at peace*, regard for corporate environmental responsibilities (*minimise harm to the environment; reduce, recycle and reuse; comply with environmental law and regulations;* and *initiate positive environmental change*) and also the issue *reporting social and environmental performance*.

D1: Community/supplier relations
Sponsorships
Donations to charities
Staff community work
Active support of local community
Utilise local suppliers
L-T supplier relationships
Initiate positive env change*

D2: Governance fundamentals
Integrity
Openness
Accountability
Accurate and honest fin report
Competence
Courage*

D3: Employee well-being
Training and development
Healthy and safe workplace
Equitable wages and rewards
Communicate company's plans
Respect employees' needs
Family-friendly work environment

D4: Green/social values
Minimise harm to env
Reduce, recycle and reuse
Comply with env law/regs
Initiate positive env change
World at peace
World of beauty
Report social and env perf

D5: Effective directing
Innovation
Leadership
Prudence
Commitment
Courage

D6: Guiding values
Excellence
Honesty
Fairness
Independence

D7: The economic self
Comfortable life
Quality product and services
L-T growth in share prices
Strive for financial stability of co.
Competence*

D8: Performance rewards
Mgmt rewards on performance
Directors' fees on performance

Note: * signifies cross-loading.

Figure 7.1 The eight dimensions of the three-strand web

The next chapter focuses on how shareholders relate to their values when they make share-buying decisions. It reports findings that show how shareholders link their own values to the qualities they expect of company directors, corporate responsibility practices and to the companies they choose to invest in.

Chapter 8
Impact of Values

> [Values] give structure to a life and point the way into the future. They help supply meaning to existence. They create specific motives, influence how we will perceive things, and help determine our thinking. They are prominent in the major choices of life – of mates, friends, occupations, and social groups.
>
> Kilby (1993: 55)

In light of the role values play in influencing the way we perceive things and our choices, this chapter focuses on the role values play in the share-buying decision process of shareholders. It shows how individual shareholders perceive the qualities of directors and issues of corporate responsibility in terms of their personal values; and how these values influence the choice of companies they invest in. I compare the findings drawn from the transcripts of the 20 interviewee shareholders from Phase One with the statistical results of Phase Two to unearth any differences between the views of the two groups of shareholders. Narratives from the Phase One interviews are used here to illuminate the findings from the questionnaire survey of 438 shareholders.

As a majority of the rating scores from these shareholders are not normally distributed[1], I adopted nonparametric correlation analysis, hence the numbers presented in the tables and discussion in this chapter are Spearman rank correlation coefficients (r_s). In interpreting the strength and significance of the statistical association, the conventional cut-off point is set at .3 with $p < .01$. Correlations of less than .3 are considered weak and correlations between .3 and .7 are considered moderate (Cronk, 2004).

The discussion of the impact of values on shareholders' share-buying decisions comprises four parts. The first part examines the link between the guiding values shareholders consider as important for themselves and the values they expect to be held by company directors. The second part discusses how shareholders connect their own values with the responsibilities they believe corporations should demonstrate towards stakeholders. The third part reports shareholders' responses to types of business and corporate practices that cause them to avoid investing in some companies. The final part examines how shareholders select companies as investment targets in light of the values they hold. The conclusion is that

1 This phenomenon is not unusual as end-pilings are often noted in values studies (refer to discussion under questionnaire design in Appendix I).

shareholders' choice of companies is, contrary to general belief, influenced by the values they hold.

Shareholders' Guiding Values and Ideal Directors' Qualities

With the use of a two-dimensional matrix[2], the views of the 20 interviewee shareholders were tracked in order to discover how shareholders relate their guiding values to those they desire for company directors.

Of the four guiding values that shareholders in Phase One nominated for themselves, a majority (12 of the 20) of the participants not only place *honesty* as their guiding value but they also expect the same from directors. The comments from both the manager and management consultant participants show that they link their own *honesty* to the quality *openness* (described as truthful, honest) they want from their directors. The manager said: 'For me, honesty always comes first,' and his view of directors was: 'Honesty has got to come first and then competence.' The management consultant stated: 'Honesty is my personal value … I expect the people [directors] to have the same value. You have to have a feeling that they are upfront with you.'

Some shareholders illustrated how important to them it is that directors have the quality of *openness* by relating it to their own experience. The retired banker, when asked what his guiding principle in life is, said: 'Honesty is the biggest one,' and he recounted the story of how impressed he was with the chairman of a company who was 'so frank with us, told the truth, didn't try to fudge it [the mistake] or make excuses'. Similarly, the retired engineer said his parents were very honest people and he learned this guiding value from them. He further added: 'I'll never be attracted to do anything else.' This interviewee also recounted how he sold his shares in a company because he felt that the shareholders were not given a truthful answer. (Both stories from these two participants are presented under *openness* in Chapter 5).

The public accountant, who has his own practice, said he had lost a number of clients because he did not believe in acting for clients who wanted him to devise a scheme to avoid paying tax or GST (goods and services tax) that he knew they should be paying. *Honesty* is the guiding principle the public accountant abides by, and this is reinforced by his comment about a company chairman who won his respect: 'He has been really one of the big leaders of New Zealand industry, a man who people admire for his honesty.'

It is not only the narratives from the shareholders that show a direct link between the guiding value of *honesty* and the directors' quality of *openness*. The statistical

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2 Each column in the matrix represents an individual shareholder. The rows represent each response according to the relevant category listed under shareholders' values, qualities of directors and corporate responsibility issues.

result in Phase Two (refer to Table 8.1) also confirms a significant relationship between *honesty* and *openness* with the highest correlation coefficient (r_s = .40).

A moderately significant relationship also exists between the guiding value of *honesty* and the ideal directors' qualities of *integrity* (r_s = .31) and courage (r_s = .30). This is explainable by the responses of the shareholders in Phase One. Of the 12 participants who nominated both *honesty* as their own guiding value and *openness* as their desired directors' quality, ten of them also want *integrity* (described as trustworthy) from their directors. For these shareholders, *integrity* relates to how directors can gain their trust by acting in the interest of shareholders instead of using the company to achieve their own ends. To earn these shareholders' trust, directors have to be open and truthful with shareholders. Seven interviewee shareholders who nominated *honesty* for themselves also expect directors to have the *courage* to question and challenge the management. *Honesty* involves having the *courage* to stand up and tell the truth and this is possibly a reason why shareholders want *courage* from their directors.

Significant, but moderate, relationships are found between the guiding value of *excellence* and the directors' qualities of *leadership* (r_s = .33), *commitment* (r_s = .32) and *prudence* (r_s = .34), pointing to links which are not easily detected in the narratives. However, the comments of the marketing consultant, who nominated all of these four items, helps to explain this statistical finding. For him, 'excellence is everything … nobody goes bust striving for quality', and his comment that directors 'have got to be drivers' implies a strong element of *leadership*. For *commitment*, he expects directors to be concerned and interested in their work: 'Their work has got to be their hobby and their hobby has got to be their work.' *Prudence* (described as cautiousness) is the other quality nominated by this participant: 'If

Table 8.1 Correlations between guiding values and qualities of directors

Qualities of Directors	Others-oriented		Self-oriented	
	Honesty	Fairness	Excellence	Independence
Competence	.27	.26	.22	.27
Leadership	.11*	.22	.33	.21
Commitment	.26	.34	.32	.32
Innovation	.17	.27	.27	.25
Courage	.30	.33	.28	.25
Openness	.40	.36	.26	.23
Integrity	.31	.27	.23	.25
Prudence	.25	.27	.34	.30
Accountability	.24	.27	.19	.16

All correlations are significant at $p < .01$ level, except * $p < .05$ level.

I lend somebody my money [in the context of investing in a company], first of all they are going to use it responsibly, which means that they are not going to throw it away.' With *excellence* (described as best of one's ability), it is highly likely that shareholders not only want their directors to show *leadership* and *commitment,* but also to exercise caution *(prudence)* in their investment strategies.

Other moderately significant associations are found between the other two guiding values of shareholders and directors' qualities (see Table 8.1). For instance, *fairness* and *commitment* (r_s = .34), *fairness* and *courage* (r_s = .33), and *fairness* and *openness* (r_s = .36). It is likely that shareholders who are guided by *fairness* believe that companies should not exploit anybody in their business dealings, hence they do not want their directors to exploit them either. Therefore they expect directors to be hardworking and loyal to them (*commitment*), be honest (*openness*) and have the *courage* to withstand unreasonable demands from the chief executive.

The guiding value *independence* is found to be moderately correlated with the desired directors' qualities of *commitment* (r_s = .32) and *prudence* (r_s = .30). It appears that if shareholders are to be self-reliant and self-sufficient (*independence*), they need to be hardworking and cautious with their financial resources. Hence these two criteria are projected to produce *commitment* and *prudence* they expect from company directors.

Commitment seems to be the most common quality shareholders expect of company directors. Moderate but significant associations are found between *commitment* and three of the four shareholders' guiding values (*fairness, excellence* and *independence*), and weak but significant association with *honesty*. It seems that, irrespective of what guiding values shareholders hold, they expect the directors who represent them to have *commitment* in looking after their investment.

From both the statistical and qualitative standpoints, there is demonstrably strong evidence that shareholders not only desire *honesty* for themselves but they also expect it from company directors. The finding on the other moderately significant associations such as *excellence* and the directors' qualities of *leadership, commitment* and *prudence* are clear instances of how shareholders relate their guiding values to their ideal qualities of directors.

Shareholders' Values and Corporate Responsibility

One unsurprising finding that emerged from the narratives is that shareholders who emphasise the importance of others-oriented motivational values (*a world at peace, a world of beauty, contribution to society*) want companies to be pro-active in their responsibilities to the community and the environment. Three of the four shareholders who held the view that companies should *initiate positive environmental change* are motivated by their value *a world of beauty*. As the architect pointed out: 'I expect companies to deal with environmental concerns in a positive way.' The statements of two other shareholders echo this strong connection. The public nurse wants to 'leave the world a better place than when I arrived by contributing to the environment' and she follows this through by investing in companies that promote environmentally sustainable practices. Her husband, the teacher, said his surroundings and his environment were very important to his happiness, and nominated as the main reason why he chose particular companies in his share portfolio that 'they seem to be doing quite a few pro-environmental sort of things'.

The teacher and the public nurse are two shareholders who consistently link their others-oriented values to their choice of companies. This is clearly shown in their oft-repeated references to their motivational values (*contribution to society*, *a world of beauty* and *a world at peace*) and that they look for and even tell their sharebroker that they want companies that are contributing positively to the environment and also those that actively support local communities. One of the public nurse's comments provides a summation of their investment philosophy: 'It is not the ultimate dollars that really drive us, it is about doing something with our money so that we feel we are contributing positively.' As confirmation, results from the correlation analysis (see Table 8.2) show that there are moderately significant associations ($p < .01$) between shareholders' others-oriented values and their attitudes to the four corporate environmental responsibilities. Correlation coefficients that are ≥ .40 are found in *contribution to society* and *report social and environmental performance* ($r_s = .40$); *a world of beauty* and *report social and environmental performance* ($r_s = .40$). It is not surprising to find that these two others-oriented motivational values correlate with the concern for social and environmental performance and the importance of it being reported.

Significant, but moderate, relationships are also found between *a world at peace* and the four issues of environmental responsibility (with r_s between .35 and .49). The strength of the relationship between *a world at peace* and *minimise harm to the environment* ($r_s = .49$) is the highest among the correlation coefficients on shareholders' values and corporate responsibilities. Similar results, but of lesser strength, were also found in the correlation coefficients between *a world of beauty* and the four environmental responsibilities (with r_s between .29 and .39). A plausible explanation for *a world at peace* being more strongly associated with corporate environmental responsibilities than *a world of beauty* is that the former is viewed in a global context, as is concern about the environment. *A world of beauty* is more connected with one's personal appreciation of the beauty of nature and arts.

Other moderately significant relationships are found between *contribution to society* and the four corporate responsibilities to the community (r_s between .31 and .39). It is noted that the strength of those relationships is stronger than those found in *a world of beauty* (r_s between .26 and .34) and *a world at peace* (r_s between .19 and .32). This can be attributed to the likelihood that shareholders who want to *contribute to society* through involvement in societal initiatives would expect similar practices from companies.

Paying fair prices to suppliers is also significantly associated with the three others-oriented motivational values (*contribution to society, a world of beauty*

Table 8.2 Correlations between others-oriented motivational values and corporate responsibilities

		Others-oriented		
	CR issues	**Contribution**	**Beauty**	**Peace**
Employees	Provide equitable wages and rewards	.31	.26	.37
	Provide training and development	.31	.22	.39
	Ensure a healthy and safe workplace	.29	.27	.37
	Create a family-friendly work env	.36	.30	.28
	Communicate company's plans	.22	.18	.26
	Respect employees' needs	.28	.23	.35
Customers	Provide quality products and services	.15	.17	.29
	Ensure value for money	.30	.20	.37
	Truthful promo and product disclosure	.31	.21	.31
	Respect customers' rights	.38	.25	.35
	Adapt to changing consumer tastes	.13	.12*	.13
Shareholders	Accurate and honest financial reporting	.20	.19	.35
	Keep shareholders informed	.24	.21	.29
	Strive for financial stability of company	.23	.21	.35
	Maintain LT growth in share price	.15	.10*	.19
	Provide regular dividend income	.22	.17	.24
	Base directors' fees on performance	.23	.17	.19
	Base mgmt rewards on performance	.19	.21	.22
	Report social and env performance	.40	.40	.35
Suppliers	Utilise local suppliers	.29	.25	.28
	Maintain L-T supplier relationships	.29	.21	.20
	Give clear purchasing requirements	.26	.20	.27
	Pay fair prices	.39	.30	.34
Community	Participate in staff comm-work programme	.36	.34	.32
	Donations to charities	.39	.34	.30
	Sponsorships	.31	.27	.19
	Active support of local community	.39	.26	.29
Environment	Minimise harm to the environment	.33	.39	.49
	Reduce, recycle and reuse	.33	.38	.40
	Comply with env law/regulations	.28	.29	.35
	Initiate positive environmental change	.34	.39	.43

All correlations are significant at $p < .01$ level, except * $p < .05$ level.

and *a world at peace*) (r_s between .30 and 39). The significant, though moderate, relationships found between the others-oriented motivational values and corporate responsibilities to the community and the environment reinforce the comments from both the teacher and the public nurse. These two shareholders, who are others-oriented, want companies to participate in the twin responsibilities of looking after the community and the environment.

The connection between self-oriented motivational values (*a prosperous life, a comfortable life, family security* and *an active life*) and corporate responsibility concerns is not as discernible in the narratives as that derived statistically from the others-oriented values described above. However, referring to the correlation coefficients listed under the four self-oriented motivational values (see Table 8.3), two important findings need to be highlighted. First, there is a difference between the motivational values of *a prosperous life* and *a comfortable life* in the relationships of each with concern for stakeholders. Second, with the exception of *a prosperous life*, significant relationships (between weak and moderate) do exist between the other three self-oriented values (*a comfortable life, family security* and *an active life*) and various corporate responsibility issues.

A prosperous life clearly stands apart from the other three self-oriented values. No significant relationship exists between *a prosperous life* and the majority (27 of 31) of corporate responsibility issues. Relationships with the remaining four issues, though significant, are weak: *adapt to changing consumer tastes* (r_s = .18), *keep shareholders informed – faults and all* (r_s = .19), *maintain long-term growth in share price* (r_s = .19), and *provide regular dividend income* (r_s = .13). It seems that the reason why those issues have significant, though weak, relationships with *a prosperous life* is that shareholders who strive to be affluent, *a priori,* expect to profit from the *appreciation of share value* and to receive *regular dividend income*. And in order to meet these requirements companies also need to be innovative and *adapt to consumers' changing tastes*. These shareholders also expect to be *informed of all situations* because that information may have an effect on share price movements. In short, *a prosperous life* is truly a deeply self-centred motivational value that has virtually no link to any aspects of corporate responsibility other than those related to increase in financial returns.

In contrast to the self-focusing value *a prosperous life*, the value *a comfortable life* is not, by and large, deeply self-regarding. Though the corporate issues that have significant (between weak and moderate) relationships with *a comfortable life* relate mostly to the economic responsibilities of business – for example, *striving for financial stability of the company* (r_s = .30) and *providing quality products and service to customers* (r_s = .27) – these issues can be seen to be more concerned with ensuring the stability of the company (and, of course, maintenance of long-term share value) than with maximising profits at all costs. This differs from *a prosperous life* which has no relationship to any responsibility for looking after employees, suppliers, the community and the environment.

Significant relationships, though weak, exist between *a comfortable life* and the four issues of corporate environmental responsibility. The comments of the

Table 8.3 Correlations between self-oriented motivational values and corporate responsibilities

		Self-oriented			
	CR issues	**Prosper**	**Comfort**	**Family**	**Active**
Employees					
	Provide equitable wages and rewards		.18	.27	.26
	Provide training and development		.14	.24	.28
	Ensure a healthy and safe workplace		.12*	.21	.20
	Create a family-friendly work env			.14	.16
	Communicate company's plans			.21	.26
	Respect employees' needs			.19	.28
Customers	Provide quality products and services		.27	.30	.34
	Ensure value for money		.17	.24	.27
	Truthful promo and product disclosure		.17	.26	.22
	Respect customers' rights		.13	.27	.27
	Adapt to changing consumer tastes	.18	.17	.17	.22
Shareholders	Accurate and honest financial reporting		.19	.32	.24
	Keep shareholders informed	.19	.26	.25	.24
	Strive for financial stability of company		.30	.28	.30
	Maintain LT growth in share price	.19	.25	.27	.25
	Provide regular dividend income	.13	.26	.20	.26
	Base directors' fees on performance		.17	.15	.16
	Base mgmt rewards on performance		.14	.15	.14
	Report social and env performance			.12	.18
Suppliers	Utilise local suppliers				
	Maintain L-T supplier relationships		.10*	.11	.14
	Give clear purchasing requirements		.17	.16	.21
	Pay fair prices		.12*	.22	.24
Community	Participate in staff comm-work programme				.17
	Donations to charities			.11*	.18
	Sponsorships				.18
	Active support of local community			.13	.22
Environment	Minimise harm to the environment		.16	.28	.29
	Reduce, recycle and reuse		.15	.20	.28
	Comply with env law/regulations		.18	.27	.23
	Initiate positive environmental change		.10*	.22	.27

Note: All correlations are significant at $p < .01$ level, except * $p < .05$ level. Blank space indicates not significant.

airline pilot and the marketing consultant who both nominated *a comfortable life* as their motivational values throw light on how these shareholders believe their companies should behave in looking after the environment: 'Within reason, yes … I don't go along with some of the unreasonable, some of this sort of super greenies who say you can't do anything, because then we would end up back in the dark ages,' (airline pilot); and 'Where the company's activities impinge on the environment, then in my view they should behave responsibly and decently,' (marketing consultant). In fact, 11 of the 15 shareholders who identified themselves with the value *a comfortable life* consider it important that companies should minimise harm to the environment and this is their expectation of corporate environmental responsibility.

The issue of community involvement does not attract the same support as environmental responsibility does: shareholders who strive for *a comfortable life* seem to stop short of supporting companies that take on responsibilities that they see as more than is necessary as a reasonable corporate citizen. No relationship exists between *a comfortable life* and all four corporate responsibilities to the community. The comment of the IT consultant sums up the link between the motivational value of *a comfortable life* and issues of corporate responsibility: 'I don't think it is the responsibility of business to take initiatives in areas that are outside their own area of business practice.' It seems that shareholders who are driven by *a comfortable life* do have concerns about corporate responsibility but their expectations stay within the boundaries of doing what is necessary for the financial stability of the company.

The second point highlighted by correlation analysis is that a majority of the relationships between the self-oriented motivational values *(a comfortable life, family security* and *an active life*) and corporate responsibility issues – though significant ($p < .01$) – are weak ($r_s < .30$). These results are in line with the common assumption that shareholders who are self-oriented are less concerned with the wider scope of corporate responsibility, such as *initiating positive environmental change*. At the same time, I believe that the link between those three self-oriented values – *a comfortable life* in particular – and shareholders' concerns on corporate responsibility is not to be ignored. For instance, of the 15 shareholders who nominated *a comfortable life* as one of their motivational values, nine of them said it is important to look after employees by paying them fairly and equitably. The sentiments of the retired banker in stating that employees should be looked after are representative of this belief: 'The staff of any company is the most important asset they have … I don't think companies are giving enough rewards to their staff these days.' Furthermore, a majority of the shareholders who strive for *a comfortable life* believe it is just as important that other stakeholders should be looked after:

> I have a lot of problems with organisations that very, very narrowly pursue their self-interest at the expense of everybody around them, and have just a very basic respect for people and the environment and society. (Journalist)

> Customers first, team members second; they are the two groups of stakeholders who really make the company. (Management adviser)

> Customers come first, employees come second. It's hard after that. Shareholders are important but so is the community and so is the environment and so are the suppliers. (Retiree)

> If they don't look after the employees, customers, suppliers, they've got nothing to look after the shareholders. I'm not a get-rich-quick artist. (Retired banker)

> Looking after the shareholders, looking after the environment, looking after their staff – that's the big picture really. (Young mother)

> It is impossible to satisfy the shareholders if you've lousy suppliers, unsatisfied customers and a rebellious workforce. (Marketing consultant)

In short, there is clear evidence to show that shareholders who are motivated by *a comfortable life* do acknowledge that companies have responsibilities to their stakeholders.

Lastly, this section discusses the relationships between shareholders' guiding values and corporate responsibility issues. It is noted in Table 8.4 that the strength of the associations between *fairness* and responsibilities to stakeholders tends to be stronger than the other three guiding values (*honesty, excellence* and *independence*). These stronger relationships are found in the four corporate environmental responsibilities and issues such as *providing equitable wages and rewards, respect for employees' needs, truthful promotion and product disclosure, respect customers' rights* and *pay fair prices to suppliers*. Obviously those issues can be seen to be in line with *fairness,* which encompasses respect not only for people but also the environment. The comments from two shareholders in Phase One affirmed such a connection when they were asked what their guiding values are. The architect said: 'Being fair to people, acting in a moral way towards other people, not harming other people or the environment.' The retiree's comment was very similar: 'Kind to other people and obey the laws of the land.' The guiding value *honesty* has the highest correlation coefficient with *truthful promotion and product disclosure* (r_s = .42) among all 31 responsibility issues. This shows that shareholders who are guided by honesty in their lives expect companies to be truthful in promoting their products.

The correlations results show that not only are significant relationships found between shareholders' others-oriented motivational values and their attitudes toward corporate responsibility, but such relationships are also found in their guiding values. In particular, the link between the three others-oriented motivational values and corporate environmental responsibilities is obvious, and it also extends to support for *social and environmental performance reporting*.

Table 8.4 Correlations between guiding values and corporate responsibilities

		Others-oriented		Self-oriented	
	CR issues	**Honesty**	**Fairness**	**Excel**	**Indep**
Employees	Provide equitable wages and rewards	.29	.36	.29	.15
	Provide training and development	.26	.29	.25	.24
	Ensure a healthy and safe workplace	.30	.28	.17	.20
	Create a family-friendly work env	.28	.26	.24	.15
	Communicate company's plans	.18	.29	.27	.24
	Respect employees' needs	.25	.36	.23	.13
Customers	Provide quality products and services	.30	.32	.33	.30
	Ensure value for money	.35	.38	.34	.30
	Truthful promo and product disclosure	.42	.42	.27	.34
	Respect customers' rights	.32	.40	.32	.28
	Adapt to changing consumer tastes	.15	.19	.24	.21
Shareholders	Accurate and honest financial reporting	.34	.35	.26	.24
	Keep shareholders informed	.29	.32	.35	.28
	Strive for financial stability of company	.32	.38	.30	.30
	Maintain LT growth in share price	.13	.19	.19	.20
	Provide regular dividend income	.19	.31	.28	.31
	Base directors' fees on performance	.24	.21	.22	.22
	Base mgmt rewards on performance	.24	.27	.20	.20
	Report social and env performance	.23	.25	.22	.14
Suppliers	Utilise local suppliers	.14	.21	.13	.15
	Maintain L-T supplier relationships	.14	.17	.24	.23
	Give clear purchasing requirements	.22	.26	.24	.28
	Pay fair prices	.30	.38	.31	.28
Community	Participate in staff comm-work programme	.23	.24	.15	.17
	Donations to charities	.19	.20	.16	.14
	Sponsorships	.16	.17	.18	.11*
	Active support of local community	.25	.15	.18	.14
Environment	Minimise harm to the environment	.35	.40	.24	.20
	Reduce, recycle and reuse	.28	.38	.25	.18
	Comply with env law/regulations	.29	.38	.23	.20
	Initiate positive environmental change	.26	.33	.21	.22

All correlations are significant at $p < .01$ level, except * $p < .05$ level.

The above discussions have so far demonstrated how shareholders' guiding values are linked to how they perceive the qualities of directors; and how their values are connected to issues of corporate responsibility. The next task is to delve deeper into how shareholders relate to their values when they make share-buying decisions. I will first analyse shareholders' responses to types of business and corporate practices that cause them to avoid investing in some companies, and then examine how shareholders select companies as investment targets in light of the values they hold.

Shareholders' Avoidance Attitudes

To offer an insight into shareholders' avoidance attitudes, a comparison between the responses of shareholders in Phase Two and those in Phase One is made. Firstly, I give some details on how responses from shareholders in Phase Two were obtained and analysed. This is followed by the identification of similarities and differences in the avoidance attitudes of shareholders in the two phases.

Questionnaire respondents in Phase Two were asked to rate their avoidance attitudes towards each of four types of business and two irresponsible corporate behaviours on a scale of 1 to 7, where 1 is 'not important' and 7 is 'extremely important'. The four types of business are considered as 'sin stocks' from the ethical investment standpoint. They are companies that manufacture alcohol, tobacco products, weapons and firearms and those that are involved with the gambling industry. The two irresponsible practices relate to the employment of child labour and discharge of effluent into the environment. Table 8.5 lists in order of importance the *means* of these business types and corporate behaviours that shareholders avoid investing in. Phase Two shareholders' concern to avoid companies displaying the two irresponsible corporate behaviours is clearly indicated by their responses: it is important for them to avoid investing in companies that employ child labour and also those that pollute the environment. Tobacco manufacturing is another sector shareholders want to avoid. The two sin stocks that they are less concerned to avoid are gambling businesses and alcohol manufacturing.

A comparison between the shareholders in the two phases shows that both groups tend to avoid investing in tobacco companies; however, they are less concerned about investing in weapons and firearms manufacturers, and least of all investing in companies that manufacture alcohol. But the two groups do differ from one another in their attitudes towards investing in companies that employ irresponsible practices or engage in the gambling business. For example, Phase Two investors consider companies that employ child labour as extremely important for them to avoid; and Phase One investors, as a group, indicated that it is not quite that important.

For similarities, shareholders in Phase Two rated that it is important not to invest in tobacco companies (M = 5.09) and this attitude is shown even stronger in the responses of the shareholders in Phase One. Fourteen of the 20 participants

Table 8.5 Shareholders' avoidance attitudes in order of importance

Avoidance in investing	*Mean*	*SD*
Employing child labour	6.28	1.45
Discharging effluent into the environment	6.08	1.46
Manufacture tobacco products	5.09	2.20
Manufacturing weapons and firearms	4.84	2.14
Gambling business	3.70	2.35
Manufacturing alcohol	2.72	2.03

Note: Ratings of importance ranged from 1 (not important) to 7 (extremely important).

clearly oppose such an investment. 'No, I wouldn't invest in it', 'absolutely not' and 'I certainly would not invest in it' are typical responses. In terms of investing in weapons and firearms manufacturers, the views of participants in both phases seem to be not so clear cut. This is shown in the middle order of 4 (M = 4.84) and only four shareholders in Phase One responded with a straight 'no' or 'no way'. The remaining 16 participants admitted that they would invest, though with some reservations. For instance: 'I don't actively exclude them', 'not willingly or wittingly', 'I wouldn't shy away from that, I admit' and 'I would probably feel a bit uncomfortable'. Of least importance to shareholders in both phases to avoid are alcohol companies, which have the lowest avoidance rating (M = 2.72). Four participants said they do not want to be involved in such an industry and, as will be seen in the next section, their opposition is based solely on the guiding values they hold. A majority of the remaining shareholders said they would have no hesitation in investing in alcohol manufacturers because they drink wine and beer themselves. This view is likely to be shared by the respondents in Phase Two who consider it 'least important' to avoid buying shares in alcohol manufacturers.

We now turn to the differences in attitudes toward the two irresponsible corporate practices and the gambling business that are found between the shareholders in Phase One and those in Phase Two. Respondents to the questionnaire survey indicated that it is extremely important that they avoid investing in companies that employ child labour (M = 6.28), and in companies that discharge effluent into the environment (M = 6.08). However, the interviewee shareholders do not feel so strongly about these two corporate behaviours. In each case only four shareholders (different shareholders in each case) indicated that they want absolutely no involvement with companies that behave in such ways. The remainder, though stating objections to them, did not consider them important enough to deter them from buying shares in companies engaging in these behaviours.

The interviewee shareholders were divided on their reasons for not avoiding companies employing child labour or sweatshops. One group suggested that it is difficult to know what is really happening when information is not readily available:

> If you take Nike for example, it was only just recently that we knew that happened. A lot of them you wouldn't know that happened. (Retired banker)

> Well, we haven't had access to the information. (Management consultant)

> Knowingly I wouldn't support it at all. (Public nurse)

> I want to feel that the people who are involved in the actual manufacturing of those goods are on a reasonable standard of living. It is difficult to follow that through; ideally in my mind I wouldn't like that. It's hard to get the information. (Manager)

> I wouldn't think of investing in Nike, but the issue is how do you know which companies are exploiting not only child labour, but exploiting low economic status labour? (IT consultant)

The other group gave various reasons for giving those companies a chance:

> I would invest in Nike because I think there is too much hype on what's done. They have worked to improve their image and so I think they deserve recognition for that. (Corporate accountant)

> Countries with poor economies will not even be getting the money that they are getting now. (Marketing consultant)

> You know what would be worse than having those kids in those jobs? Not having a job! (Retired engineer)

> It is no good looking at conditions of employment from a New Zealand perspective, thinking that the standards should be New Zealand standards. (Financial analyst)

When the interviewee shareholders were asked about their attitudes toward investing in companies that pollute the environment, a majority of them said they expected companies to *minimise harm to the environment* and *to comply with the law*. But they were not ready to punish companies which are in breach of their environmental responsibilities. This was reinforced when I asked them how they felt about hearing the news that Nuplex Industries Limited (a publicly-listed New Zealand company) was fined NZ$55 000 for polluting the environment and was told by the court to report this to their shareholders[3]. None of the seven

3 This case was published in *The New Zealand Herald* on 20 March, 2003 (Beston, 2003) which was about the time when these interviews were conducted.

participants who owned shares in Nuplex were ready to sell their shares because of that incident, but five showed some disappointment:

> Not on that one thing. But they should control the waste. I was very disappointed. (Retired banker)
>
> I would expect them to clean it up. (Airline pilot)
>
> Accidents happen. (Tax accountant)
>
> I am not impressed with things like that. Accidents do happen. (Young mother)
>
> It happens all the time ... It's the job of the law to fix it. (Retired engineer)

The management consultant, also a Nuplex shareholder, seemed not too worried about the environmental record of Nuplex because 'I am very comfortable with the directors of the company'. This shows that this participant places the quality of directors ahead of his concern for the environment when it comes to share investing. He is the shareholder who nominated *honesty* as his most important guiding value and that he expects the same behaviour from his directors**.**

It was most interesting to find that the last of the Nuplex owners in the group, the public nurse, who is others-oriented and considers *a world of beauty* is a very important motivational value of hers, said that she bought the shares in January 2001 because of 'a very glowing write up on the company that it is going places' and also that 'it is New Zealand owned'. She added that she 'couldn't see anything that was anti-environment' at the time she bought those shares, but she is the only Nuplex shareholder who said she would 'find out a bit about it, what sort of business they got into'.

The participants who were not Nuplex shareholders said the bad environmental record did not deter them from considering the company as an investment target. The retiree pointed out that Nuplex had a number of convictions over the years, but he said: 'It is still a potential investment for me ... It might have a poor environmental record up to now, but they can turn that around. Something like a poor environmental record can be changed.'

The others' responses were very similar:

> I'll not knock out a company just because it has a few convictions. It depends on what they are doing about it. (Corporate accountant)
>
> I would probably invest in it on the basis that it's now well known to regulatory authorities and they will behave. (Public accountant)
>
> I have watched Nuplex for quite a while, there are lots of things I like about it … the company is not driven by the self-interest of the management … I

> know that they have been prosecuted for consistent breach of standards in one of their plants, but their overall environmental record I don't know well enough to judge. (Financial analyst)

The one other issue where the shareholders from the two phases differ clearly is in their attitudes toward investing in gambling businesses. Among the six issues listed in the questionnaire, respondents in Phase Two seem to have a 'don't care' attitude toward investing in gambling businesses: it is second-last in terms of importance (M = 3.70). In comparison, half of the interviewee shareholders are strongly against investing in the gambling industry and they made references to Sky City (New Zealand's largest casino operator). These are examples of their responses:

> Most of my friends think I am stupid because I won't invest in Sky City. (Retired banker)

> I don't regard Sky City as an ethical investment. (Financial analyst)

> No, no way. NO way! (Retired engineer)

> I wouldn't invest in companies like Sky City which I think perform a wrong to society. That one is so clear cut that I can feel quite strong about it. (Architect)

The narratives demonstrate a clear difference in avoidance attitudes between the majority of shareholders in Phase One and those that completed the Phase Two survey.

The range of differences in avoidance attitudes of the participants of both phases of this inquiry revealed by the above comparison shows clearly that shareholders apply subjective judgments in determining their choice of investment targets. Some shareholders feel so strongly against corporate irresponsible behaviour that they will not buy shares in those companies under any circumstance, but others do not consider such behaviours as important issues at all. Some shareholders are against gambling businesses and some are not; likewise with tobacco companies, alcohol and weapons manufacturers.

Shareholders display their own bias when they select companies to buy shares in. For instance, the retired banker is strongly opposed to gambling businesses; he said most of his friends think he is stupid for not investing in Sky City. At the same time he does not consider it important to avoid companies that employ child labour, or believe he should sell his Nuplex shares simply because the company has polluted the environment. The retired engineer refuses to buy shares in gambling businesses, alcohol and tobacco manufacturers but is unperturbed by all other issues. The management consultant considers the *openness* of directors is more important to him than the practice of corporate environmental responsibility. In short, shareholders differ on what is important when they make share-buying decisions. To gain a picture of what influences the judgments made by shareholders, the next section examines how they make share-buying decisions in light of the values they hold.

Values and Share-buying Decisions

Building on the two earlier findings – firstly that shareholders project their own values on to the qualities they desire of their directors and the responsibilities that companies should take, and secondly that shareholders exhibit bias in deciding which companies to invest in – this final part of the chapter takes a close look into the values that drive shareholders in their share-buying decisions.

Impact of Guiding Values

The two guiding values (as differing from motivational values which will be discussed subsequently) of *fairness* and *honesty* are uppermost in shareholders' minds when they seek investment targets. Shareholders in Phase One nominated 11 values that motivate and guide their lives, but the value *fairness* (described as respect for people) seems to have the strongest influence on the majority of shareholders when they decide on their choice of companies. An example is the avoidance by some shareholders of gambling, tobacco and alcohol manufacturing companies. They consider those companies are unfairly making profits by exploiting people who are gullible.

> I won't invest in Sky City. They're making profits out of people's miseries or weaknesses. (Retired banker)

> No. We won't invest in Sky City. That's the one we have been suggested [by the broker] several times … we said we don't want that … I believe in acting in a moral way towards other people, not harming other people ... (Architect)

> What I find appalling about gambling is, when I go into a casino I see poor people mesmerised by machines which are always going to defeat them … There is something very distasteful to me at the thought of making a profit out of gullible people … I've never owned BAT [British American Tobacco] or anything like that. It is a business which exploits people's weaknesses. (Marketing consultant)

> I certainly would not invest in a company that makes cigarettes. I question the morality of exploiting others. I have a belief that tobacco is an addictive substance which should not be meddled with. [On Sky City] The exploitation, in this case, is of their customers. (Management adviser)

> You just have to walk into Sky City's gaming room and you see those poor people, some of whom are desperate. In my view most of those games, inevitably you would lose … I don't want to invest in a company that, say Lion Nathan, its profit really relies on increase in alcohol consumption … The damage it does to people. (Financial analyst)

> I am very much against gambling … I wouldn't hold shares in tobacco companies. They exploit people. (Retired engineer)

> I don't want to invest in anything that is involved with alcohol and gambling. I have this concern that a lot of the money comes from people who can ill afford to drink or gamble, either economically or for family reasons. (Public nurse)

The value *fairness* also applies to situations where shareholders believe trade suppliers or society at large are victims of exploitation. Some illustrate their belief with an aversion to investing in The Warehouse, New Zealand's largest retailing company.

> I don't like what they [The Warehouse] are doing. They are making a hell of a lot of money, but I stay out of it. I am very conscious of the small businessmen in the country and I think The Warehouse makes it tough for them. They pin down their suppliers and I don't like that. (Manager)

> I wouldn't invest in The Warehouse even though he [the founder] has done all the good things. There have been many small businesses which have gone under because they can't compete with The Warehouse. (Housewife)

> I have considered The Warehouse very seriously a number of times and I have managed to restrain myself [from investing in it]. I have strong reservations about what they have done to New Zealand manufacturing and New Zealand small retailing, and about the source of their goods. I find it difficult to believe with the given prices that there is not a high degree of exploitation going on somewhere in the chain. (Management adviser)

One shareholder, the retiree, relates *fairness* to his avoidance of investing in companies employing sweatshops. He said: 'I'm extremely reluctant to invest in any company that is involved in any kind of sweated labour, forced labour and low-value labour. They are taking advantage of low economic and social environments.' Observance of the value of *fairness* is also revealed in the retiree's comment that he does not want to invest in bio-research and pharmaceutical companies: 'The financial returns may be useful but how do you juggle with your conscience in terms of what [these companies] do to people?'

The public accountant raised a similar point: 'I wouldn't invest in Monsanto and companies that are at the forefront of GE development.' The reason is: 'I think they are really being driven by profit at all costs and really pay scant attention to longer-term ethical issues.' *Fairness* also influenced this shareholder's decision not to invest in a finance company that lends to 'consumers who are not informed and who are at the end of the borrowing process'. He believes the finance company is 'exploiting' customers who are in the lower socio-economic group.

The retired engineer's opposition to exploitation extends even to his not investing in the fast food industry which he believes contributes to making people obese. He said: 'Do you know McDonalds, KFCs [Kentucky Fried Chicken]? I've never held shares in that sort of thing and I never will … The more you eat that, the worse it is. I don't agree with their products.'

The narratives of the shareholders in Phase One who apply *fairness* in choosing their companies show that it forms the foundation of their sense of social justice: they do not want to make money out of people who are gullible or disadvantaged. This includes customers, suppliers and society at large. From their comments, most shareholders do not just apply the value of *fairness* selectively, they carry it through consistently, causing them to discriminate against companies they feel are unfair in their dealings with others. For instance, the management adviser, who described himself as a 'socialist', is strongly against investing in companies that he considers as 'the obvious exploiters' – cigarette companies, Sky City and The Warehouse. The other participants such as the retiree, the public accountant, the marketing consultant, the retired engineer, the financial analyst and the public nurse variously discriminate against such companies.

The other principal guiding value that impacts on shareholders' selection of companies is *honesty*. As discussed on pages 108–109, shareholders who are guided by *honesty* also expect the same behaviour from company directors. *Honesty* is so important to them that they extend its use to share-buying decisions, making any compromise of *honesty* the criterion for rejection. The management consultant, who considers the quality of directors is more important to him than corporate environmental responsibility, said he expects directors to be honest and up-front. He gave examples of companies that he 'won't touch', and one company in particular: 'I will never invest in [a publicly listed New Zealand company] because I am uncomfortable with its directors. I expect them to be professional, and part of being professional is being honest.'

Two other shareholders hold similar views:

> My ethics is about honesty … If I thought a director or chairman was dishonest or had dodgy practices – say [name of a director] popped up again with a company, I don't think I would invest in this company after what he did last time. (Bank manager)

> It is important who is on the board … if they're shifty, keep away from them … I've met Ruth Richardson [ex-government minister, now company director], smartest brain, honest. That's the one I nail my money on. (Retired engineer)

The sentiments expressed by shareholders who refuse to invest in companies that they consider as exploiters show the influential power of the guiding value *fairness* that applies to a majority of Phase One shareholders in their choice of companies. However, in Phase Two the relationships between the two others-oriented guiding values (*fairness* and *honesty*) and shareholders' avoidance attitudes do not show as clearly in the statistical results. As shown in Table 8.6, weak but significant relationships can be found between *fairness* and the avoidance attitude of investing in companies that employ child labour (r_s = .22) and companies that discharge effluent into the environment (r_s = .25). Likewise with the relationships between *honesty* and those two attitudes. In relative terms the two others-oriented guiding values (*fairness* and *honesty*) do display stronger effect on shareholders' avoidance attitudes than the two self-oriented values of *excellence* and *independence*. It is not surprising to find there is absolutely no relationship between all four guiding values and avoidance in investing in alcohol manufacturers. Shareholders in both phases indicated they were not concerned whether they invest in this industry or not.

The discrepancy in the results from the two phases, with particular reference to the values *fairness* and *honesty*, may be because of the different methods employed in collecting data. It seems certain, though, that qualitative interviewing is a better method for capturing people's emotions and feeling than quantitative data collection by questionnaire.

Impact of Motivational Values

As will be shown in the following discussion the others-oriented motivational values are influential on only a small proportion of shareholders. This imbalance is exemplified by the fact that only two of the 20 interviewee shareholders and 4.3 per cent of the questionnaire survey respondents consider the three others-oriented

Table 8.6 Correlations between guiding values and avoidance attitudes

	Others-oriented		Self-oriented	
Avoidance	**Honesty**	**Fairness**	**Excel**	**Indep**
Employing child labour	.19	.22	.11*	
Discharging effluent into the environment	.25	.25	.19	.13
Manufacturing alcohol				
Gambling business	.10*	.12*		
Manufacturing tobacco products	.10*	.11*	.11*	
Manufacturing weapons and firearms	.12			-.12*

Note: All correlations are significant at $p < .01$ level, except * $p < .05$ level. Blank space indicates not significant.

motivational values (*contribution to society, a world of beauty* and *a world at peace*) as most important in their investment decisions.

While the guiding values of *fairness* and *honesty* influence shareholders' decisions on which companies to stay away from, it seems that it is motivational values that help them find the companies they want to buy shares in. The comments of both the teacher and the public nurse, for example, bear this out. These husband-and-wife shareholders indicated that the others-oriented motivational value *a world of beauty* (described as beauty in nature and arts) is very important to them. The husband said: 'We don't have a religious belief but we get our spirituality from nature and the natural environment.' A review of the share portfolios held separately by these two participants shows that they have a strong leaning towards forestry companies and companies that observe sustainable operating practices. They explained why they hold those shares:

> [On Carter Holt-Harvey] It is because they are one of the, or the major, sponsor with Project Crimson. They put up the finance for the collection of seeds from the Pohutakawa and Rata and they provide money for prisoners to propagate these and get them growing into seedlings. And then the donation of the trees to community groups and schools. I like that. And I also like, with my public health nurse hat on, their occupational safety and health measures; they really look into them and a lot of staff's input into decision making, the fact that they reduce their injuries considerably. (Public nurse)

> [On Waste Management Ltd.] I just feel I'm much happier about having my money in a company like that … we both feel very strongly about what that company is doing for the environment. It seems to be doing a lot things that we believe are really important for the future. (Teacher)

These reasons given by the public nurse and her husband point to the others-oriented values that motivate them to invest in companies that they perceive as contributing positively to the community and the environment.

From the statistical viewpoint, results from the correlation analysis between the motivational values and avoidance attitudes show an interesting pattern (see Table 8.7). The three others-oriented values *contribution to society, a world of beauty* and *a world at peace* all show significant (between weak and moderate) relationships. In contrast, the number of weak but significant relationships between the self-oriented values *a comfortable life, family security* and *an active life* are at the bare minimum. Evidently, self-oriented shareholders are less concerned with sin stocks and corporate misbehaviour than others-oriented shareholders.

Table 8.7 shows that moderate but significant correlations exist between the others-oriented motivational value *a world at peace* and shareholders' avoidance attitudes towards investing in companies that employ child labour (r_s = .33). The highest correlation coefficient is found between *a world at peace* and the avoidance of companies that discharge effluent into the environment (r_s = .39). This result

Table 8.7 Correlations between motivational values and avoidance attitudes

		Self-oriented			Others-oriented		
Avoidance	**Pros**	**Comf**	**Fam**	**Act**	**Cont**	**Beaut**	**Peace**
Employing child labour		.13	.19	.19	.15	.22	.33
Discharging effluent into environment			.22	.21	.25	.28	.39
Manufacturing alcohol		-.18			.23	.13	.17
Gambling business	-.19	-.16			.25	.19	.20
Manufacturing tobacco products			.11*	.10*	.20	.24	.20
Manufacturing weapons and firearms					.19	.27	.29

Note: All correlations are significant at $p < .01$ level, except * $p < .05$ level. Blank space indicates not significant.

reinforces the finding that significant relationships exist between *a world at peace* and shareholders' support of corporate environmental responsibility (see pages 111–113), and is no surprise as both 'a world at peace' and 'protecting the environment' are classified by Schwartz (1992) under the motivational goal of 'universalism' which is the understanding, appreciation, tolerance and protection for the welfare of all people and for nature.

In many respects the relationship patterns between shareholders' motivational values and shareholders' avoidance attitudes are quite similar to those found in their attitudes towards corporate responsibilities. Shareholders' others-oriented motivational values (*contribution to society, a world of beauty* and *a world at peace*) not only significantly relate (ranged between weak and moderate) to their attitudes toward avoiding irresponsible practices and sin stocks (see Table 8.7), but also in their expectation of a wider range of corporate responsibilities such as looking after the community and the environment (refer to Table 8.2).

Similar patterns also occur in the two self-oriented motivational values *a prosperous life* and *a comfortable life*. No relationship is found between *a prosperous life* and avoidance attitudes to the irresponsible practices nor the three sin stocks: manufacturers of alcohol, tobacco and weapons (refer to Table 8.7). In fact, a significant negative relationship is found between *a prosperous life* and the avoidance attitude to investing in gambling business (r_s = -.19).

Interplay Between Values in Choice Decisions

In one way, the statistical finding that no relationship exists between *a prosperous life* and avoidance attitudes indicates, at first impression, that shareholders who strive for wealth are not concerned with issues other than those related to creating wealth for shareholders. In another way, a question that needs to be asked is: do shareholders hold only one value? The answer is definitely not. It is stated in Rokeach (1973), Hofstede (1980) and others that people hold a number of values and conflicts often exist. During Phase One shareholders' discussions of their motivational and guiding values, a minimum of two and a maximum of six values were mentioned by each participant and conflicts between the values clearly exist when shareholders decide on their choice of companies. Using the corporate accountant as an example, she is the only shareholder who identifies with the motivational value *a prosperous life*, but she also identifies *an active life* and *honesty* as being important in her life. This participant presented the image of a rational investor when she discussed her approach to investing in Sky City, but her subsequently expressed avoidance attitudes towards investing in abortion clinics and tobacco companies show that she is not as rational as might initially be assumed. She said, for instance:

> A number of reasons for [investing in] Sky City: it's been the top performer on capital gains and high dividend yield … They hold a monopoly position in most of the places they are in … Also, with the economy, things such as casinos appear to weather downturns very well.
>
> It's abortion clinics or things like that I would not invest in. And tobacco companies too. So it is not just for the bottom line, it is also morally; I do not believe in what they do.

Clearly in making the decision to invest in Sky City, the corporate accountant was not driven by *fairness* as had been other shareholders such as the retired banker, the architect, the marketing consultant, the retired engineer, the financial analyst and the public nurse. Those shareholders associated Sky City with exploitation of gullible people. However, it appears that it is not strictly from a moral viewpoint that the corporate accountant wants to avoid such companies as tobacco manufacturers. In the latter part of her interview, apart from talking about her wanting 'more than a comfortable life' and her fear of not having money, she emphasised that 'being healthy' is her motivational goal. It may therefore be her desire for *an active life* (described as healthy in mind and body) that underlies her aversion to tobacco companies.

The case of the corporate accountant is an illustration of the complexity of human nature: though *a prosperous life* may be the driving value behind a person's striving for monetary success and satisfaction, at times it is not powerful enough to counter the other motivational and guiding values that they hold simultaneously.

As with *a prosperous life*, the correlations of *a comfortable life* with avoidance attitudes show some interesting results. There is no relationship between *a comfortable life* and shareholders' avoidance of investing in companies that discharge effluent to the environment, and companies that manufacture tobacco and weapons. Yet the motivational value of striving for financial security is positively correlated, though weak, with attitudes towards avoiding investing in companies that employ child labour ($r_s = .13$); and negatively correlated, though weak, with avoidance in the gambling business ($r_s = -.16$) and alcohol manufacturing

(r_s = -.18). Shareholders in Phase Two who desire *a comfortable life* do not seem too concerned about investing in sin stocks, and hold only a slight reservation for investing in companies employing child labour. These statistical results, however, are at odds with the findings from the shareholders in Phase One who nominate *a comfortable life* as their motivational value. Those shareholders variously appear to apply a different value in making their choice of companies, and their avoidance of sin stocks such as alcohol, gambling and tobacco companies. The value of *fairness* plays a strong role in influencing their decisions. This shows that though *a comfortable life* drives shareholders to buy shares, when it comes to choice of companies, it seems to be the strongly-held value that is most applicable to the particular context in which a company is considered as an investment target that has the greatest influence on the share-buying decision.

One typical example is the tax accountant and his wife whose motivational values are *a comfortable life* and *family security*. They have ‘no problems’ and ‘no worries’ in investing in anything from gambling businesses to companies that are involved in manufacturing alcohol and weapons. They both point out that they look at the core business, not the ‘touchie-feely stuff’. However, the issue of child labour drew out a response that they might hold back from investing in such companies. The particular context here is that this couple have two young children, and looking after a loved one (*family security*) becomes their dominant value in this circumstance.

Similar situations were found in other shareholders motivated by *a comfortable life* to invest in shares, but who have other values take over when they make their final investment choices. Their narratives describe how they avoid companies that they consider exploit customers, suppliers and society (refer to earlier discussions on pages 123–125). Following are some of their further comments showing that striving for financial security does not always remain the sole driver when shareholders feel another strongly-held value is compromised:

> The financial returns may be useful but how do you juggle with your conscience in terms of what [these companies] do to people? (Retiree)

> If Sky City launches out into the world by giving me lots of money, I still couldn’t invest in it. (Public nurse)

> I wouldn’t hold shares in Sky City. I thought it was bound to make money but I am not going to be part of it. (Retired engineer)

> From a financial point of view, it was obvious that The Warehouse would be a winner … [On Sky City] there is money to be made there, and both of those two companies at different times would have been good times to invest. But I haven’t and I am not going to. (Management adviser)

Shareholders generally want *a comfortable life*, as indicated by a majority (15 of 20) of the Phase One shareholders. This was also rated by the largest proportion (35.4 per cent) of shareholders in Phase Two as the most important value that influences their investment decisions (see Tables 4.1 and 4.3). However, this motivational value does not have as much weight as the others-oriented values – *fairness, honesty, a world of beauty* and *a world at peace* – when shareholders decide on their choice of companies. This shows that shareholders are attracted to investing in shares because they desire *a comfortable life,* which is self-oriented, but their others-oriented values play a significant role in lessening the power of this principal motivation by influencing the final selection of companies in which they will invest.

Conclusion

Both the narratives and the statistical findings analysed in this inquiry provide insights into the interplay between shareholders' self-oriented values and others-oriented values when they decide on their target companies. Shareholders are motivated by *a comfortable life* to invest in shares, but the value of *fairness* has most impact on their final choice of companies. Shareholders not only relate to their values in share-buying decisions, but also project their own values onto the qualities they expect from directors and the responsibilities of companies toward their stakeholders.

There is a link between shareholders' guiding values and the qualities shareholders expect of their directors. It is not surprising to find that shareholders who are guided by *honesty* expect the same behaviour from company directors. Some shareholders use *honesty* of directors as a determinant of their choice of companies. The findings that *excellence* is associated with *leadership*, *commitment* and *prudence*; *fairness* is associated with *commitment*, *courage* and *openness*; and *independence* is associated with *commitment* and *prudence* add further insight into how shareholders relate their guiding values to their desired qualities of directors.

Shareholders' attitudes towards how much responsibility their companies should assume when dealing with employees, customers, shareholders, suppliers, the community and the environment depend on the type of values they hold. The deeply self-focusing motivational value *a prosperous life* bears virtually no relationship to any concern for stakeholders except the responsibilities that serve to increase their wealth. The other self-oriented value, *a comfortable life,* relates essentially to the economic responsibilities of the company and, to some extent, corporate environmental responsibility. In comparison, the others-oriented shareholders have higher expectations of corporate responsibility. They want companies to have active involvement with the community and to initiate positive environmental change.

The key finding is that shareholders' choice of companies tends to be influenced by the values they hold. A majority of shareholders are self-oriented and strive for *a comfortable life*, but their others-oriented values are triggered when they decide what companies to invest in or not to invest in. *Fairness* plays the most influential role in guiding shareholders away from investing in companies that they believe are exploiting people who are gullible or disadvantaged. *A world of beauty* and *a world at peace* encourage shareholders to seek out companies that contribute positively to the community or the environment.

The next chapter excerpts the findings of this and the previous four chapters and discusses them in light of the theoretical concepts and other empirical studies that caused me to investigate shareholders' values as a significant influence on their share-buying process.

Chapter 9
Debunking the Ordinary-investor Stereotype

> Marketing of financial services seems to be built upon the presumption that all investors are active and always eager to increase their wealth, referred to as greed. This misconception is probably enhanced by the financial theories that are dominant.
>
> Wärneryd (2001: 293)

Wärneryd (2001) debunks the stereotype of investors as greedy individuals constantly on the lookout for opportunities to increase wealth. He draws this conclusion from behavioural finance studies of individual investors' behaviour in relation to risk, diversification of portfolios and trading activity. My inquiry took Wärneryd's observations further, throwing light on several largely unexplored areas. The three basic strands of this inquiry – shareholders' values, qualities shareholders expect of company directors and shareholders' attitudes to corporate responsibility – can now be woven into a web of interrelationships between the concerns that play a part in the shareholder share-buying decision making process. This chapter reinforces the three-strand structure of this inquiry by examining each strand in detail to show how the key findings relate to relevant theoretical concepts.

The first strand – shareholders' values – argues from both theoretical and empirical standpoints that the motivational value of *a prosperous life* (as represented by short-term profit maximisation at any cost) is not the dominant value that shareholders live by or focus on when they make share-buying decisions. The second strand – qualities expected of company directors – shows that shareholders expect a much wider range, and higher standards of behaviour from directors than for themselves. They expect *leadership* and *commitment* from directors, but do not nominate those as core values for themselves. The only value that shareholders consider as an ideal standard of behaviour for both themselves and directors is *honesty*, and it plays an important role in influencing shareholders' decision on whether or not to invest in a company. The third strand – shareholders' corporate social responsibility (CSR) concerns – shows that shareholders do discriminate between companies' responsibilities to each individual stakeholder group, as shown in the hierarchy of shareholders' concerns. However, shareholders do not appear to have the 'me first' attitude of viewing the employees, customers and the environment as a means to achieve the end of wealth maximisation. Shareholders' interest in the long term prospects of companies is reflected in the activities that they expect their companies should prioritise (for example, *provide quality products and services*, *strive for company financial stability*). The conclusion is that shareholders do not meet the stereotype of being strictly rational self-interested economic maximisers.

The First Strand: Shareholders' Values

Of the 11 shareholders' values classifiable as motivational and guiding, motivational values are the ultimate goals in life that shareholders strive for. Guiding values are standards of behaviour shareholders desire for themselves. The two types of values can further be classified as either self- or others-oriented, and they reflect the bipolar dimensions – personal versus social, self-enhancement versus self-transcendence – discussed in Rokeach (1973) and Schwartz (1994). For ease of reference, the matrix (Figure 4.1) shown in Chapter 4 depicting the classifications of the 11 shareholders' values is re-presented below.

Shareholders are generally conveniently assumed to be rational profit maximisers or manifestations of *Homo Economicus* (Lewis, 2002; Rivoli, 1995; Wärneryd, 2001), and it is therefore appropriate to examine shareholders' values in light of the concept of *Homo Economicus*, counterbalanced by *Homo Sociologicus*, the opposite pole of human behaviour.

Shareholders' Motivational Values Spectrum

Homo Economicus (Economic Man) humans are self-centred, while *Homo Sociologicus* (Social Man) humans are society-centred. From the perspective of

		Type of value	
		Motivational	**Guiding**
Orientations	**Self-oriented**	A comfortable life A prosperous life Family security An active life	Excellence Independence
	Others-oriented	Contribution to society A world of beauty A world at peace	Honesty Fairness

Figure 4.1 Matrix: Classification of shareholders' values

shareholders' motivational values, the deeply self-focused *a prosperous life* is the ultimate financial ambition of the self-interested *Homo Economicus*; the others-oriented values (*contribution to society, a world of beauty* and *a world at peace*) describe the society-centred *Homo Sociologicus*. These motivational values of shareholders can be seen as a spectrum (see Figure 9.1) with the purely self-oriented value *a prosperous life* at one end, and the three others-oriented values at the other. In between are the other three self-oriented values – *a comfortable life, family security* and *an active life*.

A prosperous life incorporates the distinctive attributes assigned to *Homo Economicus*. Tomer (2001) describes them as self-interested, rational, separate and unreflective. The self-interested Economic Man[1] has well-defined preferences for things and experiences that provide satisfaction for the self, and acts in a rational, machine-like way to make decisions that lead to his/her maximum satisfaction. Economic Man stands apart from his/her physical world and from other humans, and is unreflective as his/her consciousness is dominated by his/her calculating, choosing and satisfaction obtainment activity. Shareholders who strive for *a prosperous life* (affluent, wealthy) exhibit the signs of *Homo Economicus*. They are rational and self-interested in that they focus only on increasing material wealth; they see money as an end instead of a means to an end. The financial bottom line is their main focus when they make investment decisions. Of the 20 shareholders who took part in Phase One interviews, only one shareholder – the corporate accountant – desired *a prosperous life*, and she shows all of the self-interested and rational signs of *Homo Economicus*.

The statistical findings confirm that *a prosperous life* is highly related to the concept of *Homo Economicus*. Results of the correlation analysis of *a prosperous life* with the 31 corporate responsibilities and also with the shareholders' avoidance attitudes imply that shareholders who strive to be wealthy are self-interested, rational, separate and unreflective. This deeply self-focused motivational value

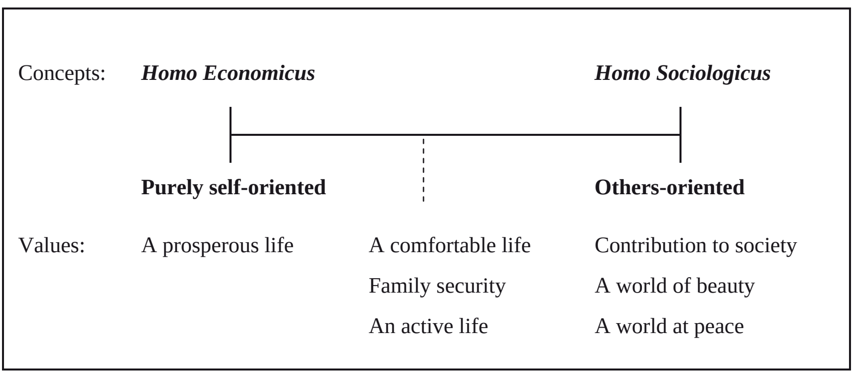

Figure 9.1 Shareholders' motivational values spectrum

1 The word 'man' in this context is genderless.

bears virtually no relationship to any aspects of corporate responsibility other than those related to increasing financial returns (see pages 113–114). In other words, they have no concern for the well-being of other stakeholders. Of all seven motivational values, *a prosperous life* is the only value that has no relationship with attitudes of avoidance to investing in companies following irresponsible practices nor three of the four sin stocks. In fact, a significant negative relationship is found between *a prosperous life* and the avoidance attitude to investing in gambling business (refer to Table 8.7). These shareholders appear to be non-discriminatory about types of business or corporate practices and are non-judgmental of corporate behaviour. They seem to be different from other investors in that their consciousness is dominated by their desire to maximise wealth at any cost. Contextually, *a prosperous life* represents the extreme self-oriented (*Homo Economicus*) end of shareholders' values.

At the other end of the spectrum are the others-oriented motivational values (*contribution to society, a world of beauty* and *a world at peace*) which reflect the assumptions made about *Homo Sociologicus*. A common view of the Social Man is that people are directed by social norms and driven toward the common good. Instead of pursuing their own selfish goals and seeking economic advantage, these people hold societal contracts and norms in the highest regard (Kangas, 1997). Shareholders who hold the others-oriented motivational values are associated with the concept of *Homo Sociologicus*. This group of others-oriented shareholders, exemplified by the teacher and the public nurse, show strong concern for other stakeholders, demonstrated by their support for the public good: corporate responsibilities to the community and the environment. From the statistical standpoint, all these three others-oriented motivational values have positive relationships (ranging from weak to moderate) with all of the 31 corporate responsibilities identified in this inquiry (see Table 8.2); similar relationships also exist in avoidance attitudes towards investing in corporations following irresponsible practices, and sin stocks (see Table 8.7). Shareholders who are motivated by *contribution to society, a world of beauty* and *a world at peace* exhibit the classic signs of the Social Man. Hence, these three motivational values represent the *Homo Sociologicus* pole of the spectrum of motivational values.

Between the poles are the remaining three self-oriented motivational values (*a comfortable life, family security* and *an active life*) shared by most ordinary shareholders. The difference between these three self-oriented values and the purely self-focused *a prosperous life* is shown by the concerns this group of shareholders has for other stakeholder groups. What also makes these three self-oriented values different from the others-oriented values is the strengths of their associations with corporate responsibilities. The self-oriented values are comparatively weaker, as evidenced by the significant but weak relationships shown in Tables 8.2 and 8.3. Using the shareholders who have *a comfortable life* as their prime motivational value as an example, this group has concerns for employees, customers and the environment but seems to draw a line on whether companies should take on the responsibilities of looking after the community. For this reason *a comfortable life,* *family security* and *an active life* are values that fall between the poles of the motivational values spectrum.

Reviewing shareholders' motivational values in conjunction with the assumptions made of *Homo Economicus* and *Homo Sociologicus* highlights the following main point. Though it is easy to classify shareholders' motivational values from the standpoints of *Homo Economicus* and *Homo Sociologicus*, people in reality do not have just one value. And, pure forms of *Homo Economicus* and *Homo Sociologicus* do not really exist (Elster, 1985; Kanjas, 1997; Kuran, 1990; Tomer, 2001). In my discussion on the interplay between values in shareholders' choice decisions (see pages 128–129), I used the corporate accountant to illustrate that even though she is identified with the value *a prosperous life* and that she is driven by the financial bottom line in her investment decisions, her other nominated value, *an active life*, plays a part in influencing her to avoid investing in tobacco companies. Similarly, two shareholders (the teacher and the public nurse) whose others-oriented values motivate them to invest in companies that contribute positively to the community and the environment also compromise the *Homo Sociologicus* assumption. When they discovered one company they invest in was in fact polluting the environment, they did not take immediate action to sell their shares. Such inertia would certainly not have existed if these shareholders were *purely* others-oriented. These examples show the complexity of human nature: people simultaneously hold a number of values and conflicts often exist. The behaviours of the corporate accountant, the teacher and the public nurse described above illustrate the dual selves that each of us seem to exhibit: split between a private (Economic Man) and a public (Social Man) self (Elster, 1985), and the notion of the 'divided self' that has us deriving our happiness from multiple potentially contributing sources (Kuran, 1990).

Shareholders in Reality

Elster's (1985) point about dual selves and the way people always try to mediate between long-term and short-term interests can be viewed from the perspective of shareholders. The long-term interest of most is associated with concern for the wider responsibilities companies should take in looking after other stakeholder groups. This is reflected in the 'employee well-being', 'community/supplier relations' and the 'green/social values' underlying the web of interrelationships formed by the merging of the three strands of inquiry (refer to Chapter 7). The short-term interest of shareholders is assumed to be maximising profits at any cost, which is motivated by *a prosperous life*. However, the point is that results from the two phases of this inquiry show that striving to be wealthy (*a prosperous life*) is not the dominant value that shareholders live by or focus on when they make share-buying decisions. In fact *a prosperous life* is rated at the bottom of the list of 11 values in terms of its importance; and it is considered as having a mild influence by only a very small minority (1.3 per cent) of all the shareholders participating in this inquiry. Furthermore, during identification of a list of representative values that relate to shareholders' share-buying decisions through factor analysis (see Chapter 7), *a prosperous life* was eliminated from the process. Instead, the dimension of 'the economic self' came to the fore. The economic self shows the interrelationships between *a comfortable life* and the issues relating to the long-term economic responsibilities of the company (*provide quality products and services, maintain long-term growth in share price* and *strive for financial stability of the company*) instead of targeting for short-term profit maximisation. There is obviously a difference between *a comfortable life* and *a prosperous life* from the shareholders' viewpoint. It seems that the more broadly motivating dimension of 'the economic self' is more representative of the true nature of shareholders. They balance their own interest with what they see as the long-term economic responsibilities of corporations.

There are two main reasons why *a prosperous life* is not a dominant value in shareholders' share-buying decisions. First, the other self-oriented value *a comfortable life* (financially secure, content) is, as already noted, considered by shareholders as more important than *a prosperous life*. *A comfortable life* is rated as the most important value with the largest group (35.4 per cent) of shareholders, indicating that it has the most important influence in their investment decisions. The second reason is that people's values are changing, according to the World Values Surveys conducted by Inglehart (2000, see also Inglehart, 1997; Inglehart and Baker, 2001). This author tracked the values shifts that had occurred during the previous 25 years and found that in almost all advanced industrial societies, people's interest in striving for maximum economic gain is waning and their concern for environmental sustainability is increasing. Inglehart and Baker (2001) further find that post-industrial societies, rather than growing more materialistic with increased prosperity, are placing an increasing emphasis on quality-of-life issues, environmental protection and self-expression. As this trend develops, it gives reason to the fact that *a prosperous life* is not a dominant value held by shareholders.

The point Inglehart and Baker (2001) make on the increasing emphasis of quality of life by people in post-industrial societies is echoed in the results of a series of studies conducted in New Zealand (Growth and Innovation Advisory Board (GIAB), 2004; Gold and Webster, 1990; Murphy, 2001; Perry and Webster, 1999; Webster, 2001). Webster and colleagues conducted a series of studies – the New Zealand Study of Values – which track the values changes of New Zealanders. They found that there was a shift from 'prosperity', which was the most important objective for New Zealanders in 1985, to a clear priority by 1990 of 'security and stability' (Gold and Webster, 1990). In 2001, Webster reported that the highest personal values of New Zealanders were health, family, friends and leisure. Murphy's (2001) findings of what New Zealanders perceive to be the principles required for a desirable quality of life showed that the principles 'to act sustainably' and 'ensure fairness' had the highest ratings, and 'provide security' the lowest rating. A more recent study conducted by the Growth and Innovation Advisory Board (2004) to identify the attitudes and concerns of New Zealanders shows that a clear majority of respondents rate the quality of life and quality of the environment as most important to them. The potential to increase personal wealth is secondary in importance. Obviously, these results point to the fact that New Zealanders generally have priorities other than the achievement of material wealth. This helps explain why *a prosperous life* is not a dominant value for (at least) New Zealand shareholders.

In relative terms, the lessening in importance of materialistic wealth as a priority in New Zealand shareholders' lives or as an important influence in their share-buying decisions is quite similar to the American shareholders in Ryan's (1994) study. The American shareholders both rate and rank 'equality for all' ahead of 'happiness' and 'personal prosperity'. Furthermore, 'equality for all' is ranked more highly ($p < .001$) by the shareholders than the executives. A possible explanation is that people in the USA and, it is now clear, New Zealand, have shifted from the survival-based materialistic values to the self-expression values described in Inglehart (2000). In Inglehart's global cultural map which identifies clusters of countries that share a similarity of basic values, it is interesting to note that Australia, New Zealand, Great Britain and Canada are shown not only as belonging to the same cluster, but also positioned at the self-expression end of the spectrum. I speculate that it is likely that shareholders in those four countries may share a similar values hierarchy, and material wealth may not be perceived as a top priority.[2]

In terms of the four guiding values *(honesty, fairness, excellence and independence*) identified from the shareholders, *honesty* and *fairness* are rated as the two most important values in the list of 11 values. *Honesty* not only guides shareholders' personal lives but is a value that shareholders expect of company directors. It is not surprising to find *fairness* so highly rated by shareholders. New Zealanders perceive ensuring fairness (promote equity, respect diversity, encourage compassion) to be the second-most important quality of life principle after 'act sustainably' (Murphy, 2001). The other two guiding values *excellence* and *independence* can be viewed in light of Murphy's (2001) findings that working hard, self sufficiency and a sense of independence are believed by New Zealanders to be important social and economic strengths. The four guiding values of shareholders do not seem to be much different from those of the rest of the New Zealand population. Further discussion of the guiding values in relation to the qualities of directors is in the next section.

The Second Strand: Directors' Qualities

At the beginning of my inquiry, one of my aims was to gain a more in-depth understanding of shareholders' guiding values by finding out whether the standards

2 Certainly, more in-depth study is required. This also suggests further researches into the value hierarchies of shareholders in various countries as values priorities differ between societies and cultures. More detailed discussion in Chapter 10.

of behaviour that shareholders desire for themselves are similar to those they expect of company directors. This investigation – the second of the three strands – produced some very interesting findings. Firstly, shareholders expect a much wider range of standards of behaviour from directors than for themselves. Secondly, new knowledge on how small shareholders perceive corporate governance is revealed by analysis of the *mean* ratings on each of the directors' qualities.

Values for Oneself versus Values for Others

Shareholders nominated *honesty, fairness, excellence* and *independence* as their own desired standards of behaviour, but they expect nine qualities from company directors: *integrity, openness, competence, accountability, commitment, courage, innovation, leadership* and *prudence*.

Some personal guiding values and directors' qualities are very similar, such as *honesty* and directors' *openness* and *integrity*; *excellence* and directors' *competence*. It seems that the qualities of *innovation, accountability, leadership, prudence* and *courage* are seen by shareholders as more applicable to the role of directors than as standards of behaviour for themselves. It is likely that these are generally not shareholders' core guiding values, though some shareholders may desire them, but they are seen as important attributes for directors to possess.

It is noted that, irrespective of what guiding values shareholders hold, they expect *commitment* (hardworking, loyalty) from directors (refer to correlation analysis on pages 109–110), but do not nominate it as a value for themselves. *Fairness* (respect for people), on the other hand, though an important value in guiding shareholders' personal lives and in the choice of the companies they invest in, is not a quality which shareholders specify for their directors. A possible reason why shareholders do not identify *fairness* as a quality for directors may be because they consider qualities should be capable of being monitored through performance. For instance, through readily available information sources, shareholders can judge whether a director is a good leader, competent in what they are doing, prudent in investment strategies and management of resources, and honest or not. Of the four shareholders' guiding values and nine qualities of directors, *fairness* is the one value that is most abstract. This is shown in the use of it by some shareholders in Phase One in the context of their condemnation of corporate exploitation, and some saw it in the ethical and moral sense, equating it with their conscience.

This second strand of inquiry into the qualities shareholders expect of company directors expands our knowledge of the guiding values of shareholders. It throws light on some of the standards of behaviour that shareholders believe should apply to directors, such as *leadership*, though again this is not a common or core value that guides their own lives. The only value that shareholders consider as an ideal standard of behaviour for both themselves and directors is *honesty*. This illustrates a point made by Rokeach (1973) and Hague (1993) that the values that are desired for oneself are not necessarily similar to those desired for others. At the same time, I believe that *honesty* is such a core value for most shareholders that almost all expect it from others too.

Building a Directors' Qualities Framework

An interesting aspect of how shareholders perceive corporate governance emerged from the statistical findings when shareholders rated how important each of the nine directors' qualities are to them (refer to Table 5.3). The *mean* ordering distinguishes between the nine qualities that shareholders consider as fundamentally important to being an effective director and those that are supplementary. The top four – *integrity, openness, competence* and *accountability* – are fundamental to the concept of good corporate governance. The other five – *commitment, courage, innovation, leadership* and *prudence* – are supplementary to the first four, as confirmed by the factor analysis in Chapter 7. The qualities of *integrity, competence, courage* and *commitment* are nominated in the principles of good corporate governance prepared by the Australian Securities Exchange (ASX Corporate Governance Council, 2007), New Zealand Securities Commission (2004), the OECD (2004) and UK's Financial Reporting Council (2006) as desirable qualities for directors to possess.

Since the widely reported corporate scandals of Enron and WorldCom in the USA, and HIH Insurance in Australia, where greed and dishonesty were uncovered, calls have been made to introduce higher levels of ethics and values into the corporate boardroom and management. Abreu et al. (n.d.) emphasise the importance of ethics and ethical behaviour for each of us as individuals and for every corporation. Justice Neville Owen in his report on the collapse of HIH Insurance, made this point: 'I think all those who participate in the direction and management of public companies, as well as their professional advisers, need to identify and examine what they regard as the basic moral underpinning of their system of values.' (Reported in Gettler, 2005). Therefore, it is not just the ability and experience of directors that are important, their ethics and ethical behaviour are of equal importance.

A number of authors have stated that what now constitutes good corporate governance has gone past the structural (check and balance) stage, and that we need to pay greater attention to the attributes and characteristics of directors on boards (see, for example, Finkelstein and Mooney, 2003; O'Higgins, 2002; Sonnenfeld, 2002), and the ethical obligations of directors (Schwartz et al., 2005). Therefore, the qualities identified by the shareholders in this inquiry (*integrity, openness, competence, accountability, commitment, courage, innovation, leadership* and *prudence*) serve as a useful framework within which to judge the competence and ethical behaviour of directors, and thus the quality of any company's corporate governance.

The Third Strand: Shareholders' Attitudes to Corporate Responsibility

This section comprises three parts, discussing the hierarchy of shareholders' concerns about CSR in conjunction with the issues I raised in Chapter 3 that subsequently led to my investigation of shareholders' corporate responsibility attitudes. Firstly, the hierarchy of shareholders' concerns shows that classifying corporate responsibilities under Carroll's (1979, 1991) economic, legal, ethical and philanthropic categories is too restrictive and arbitrary. Indeed, the identification of corporate responsibilities according to their relevance to each of the stakeholder groups offers a more systematic way of discovering shareholders' CSR attitudes. Secondly, the hierarchy reveals what shareholders consider are important corporate practices and that they clearly understand that for long-term success, companies need to look after the interests of stakeholders. Thirdly, a comparison of the corporate responsibility attitudes of shareholders in this inquiry with those of the consumers found in Mercer (2003) shows that there is a difference between these two groups.

A Hierarchy of Shareholders' Concerns

The pattern established by listing the *means* of each issue in order of importance can be seen as three levels of responsibilities which directly follow Carroll's Pyramid of Corporate Social Responsibility (1991, see also 1979 and 2004). However, it highlights the inadequacy of Carroll's overly simplistic categorisation of corporate responsibilities. Seemingly, the top ten issues relate to economic and legal responsibilities, the middle 11 are the ethical responsibilities, and the bottom 10 are discretionary responsibilities (refer to the first column in Table 9.1).

The economic responsibilities, according to Carroll (1991), are to produce goods and services that consumers need and want and to make an acceptable profit in the process. At the same time, Carroll points out that there are ground rules under which a business is expected to operate; that is, to pursue economic missions within the framework of the law. As can be seen, economic and legal responsibilities are combined in the first level in Table 9.1. Shareholders' perceptions of economic responsibilities include *providing quality products and services, adapting to changing consumer tastes, striving for financial stability of company* and *maintaining long-term growth in share price*. Legal responsibilities comprise *accurate and honest financial reporting, keeping shareholders informed*[3], *truthful promotion and product disclosure, minimise harm to the environment*[4], *comply*

3 For instance, the continuous disclosure requirements under the Listing Rules of both the Australian Securities Exchange (Rule 3.1) and New Zealand Stock Exchange (Rule 10.1).

4 *The New Zealand Herald* reported that Nuplex Industries Limited (a New Zealand company), was prosecuted for leaking fumes into the environment through 'sloppy housekeeping' of their odour control equipment which had not been serviced since its installation 8 years before. Nuplex was fined NZ$55 000 and was ordered by the court to publish details of the conviction in its annual report (Beston, 2003).

Table 9.1 A hierarchy of shareholders' concerns

	Corporate Responsibility issues	*Mean*	*SD*	Importance
Economic and legal responsibilities	Accurate and honest financial reporting	6.80	0.50	1
	Quality products and services	6.50	0.75	2
	Strive for company financial stability	6.37	0.83	3
	Keep shareholders informed: faults and all	6.29	0.92	4
	Truthful promotion and product disclosure	6.28	0.97	5
	Minimise harm to the environment	6.27	1.04	6
	Comply with environmental law/regulations	6.21	1.09	7
	Long-term growth in share price	6.17	0.92	8
	Adapt to changing consumer tastes	6.13	0.92	9
	Ensure healthy and safe workplace	6.11	1.08	10
Ethical responsibilities	Base directors' fees on performance	6.10	1.12	11
	Value for money	6.10	1.00	11
	Base management rewards on performance	6.07	1.12	13
	Reduce, recycle and reuse	6.02	1.07	14
	Respect customers' rights	6.01	0.95	15
	Equitable wages and rewards	5.84	1.18	16
	Training and development	5.75	1.12	17
	Clear purchasing requirements	5.71	1.23	18
	Regular dividend income	5.70	1.32	19
	Respect employees' needs	5.64	1.12	20
	Pay fair prices	5.64	1.25	20
Discretionary responsibilities	Communicate company's plans to employees	5.59	1.20	22
	Initiate positive environmental change	5.52	1.40	23
	Maintain long-term supplier relationships	5.49	1.33	24
	Report social and environmental performance	5.10	1.32	25
	Active support of local community	5.10	1.48	25
	Create family-friendly work environment	5.03	1.38	27
	Utilise local suppliers	5.00	1.50	28
	Staff community-work programme	4.71	1.49	29
	Sponsorships	4.43	1.57	30
	Donations to charities	4.32	1.58	31

with environmental law and regulations and *ensure a healthy and safe workplace*. Obviously violation of these legal obligations can subject the companies to prosecution by relevant government authorities. In short, those ten economic and legal responsibility practices are what Carroll (2004: 116) states as 'doing what is required'.

The next group of 11 issues are ‘standards, norms or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just or in keeping with the respect or protection of stakeholders’ moral rights’ (Carroll, 1991: 41). With the exception of *giving clear purchasing requirements* which is more of an operational practice, the issues in this group seem to meet Carroll’s (2004) description of ethical responsibilities. They relate to doing what is ‘expected’ by stakeholders. *Value for money, base directors’ fees on performance, base management rewards on performance, provide training and development* to employees and *regular dividend payments* to shareholders may be considered as practices that respond to the expectations of relevant stakeholder groups. *Provide equitable wages and rewards, respecting employees’ needs* and *paying fair prices to suppliers* – as opposed to exploiting employees and suppliers by squeezing them down to unreasonably low prices – are prime examples of doing what is just and fair.

The ten issues of lesser importance to shareholders are discretionary responsibilities. Though Carroll (1991) replaced the term ‘discretionary’ with ‘philanthropic’ in his CSR definition, I prefer to describe those ten issues nominated by the shareholders as discretionary. Discretionary responsibilities are not mandated, or required by law, and not even generally expected in an ethical sense (Carroll, 1979). All of the four community-related issues nominated by the shareholders – *active support of local community, staff community-work programmes, sponsorships* and *donations to charities* – fall into the discretionary category. The other six discretionary practices are *communicate company’s plans to employees, create family-friendly work environment, maintain long-term supplier relationships, utilise local suppliers, report social and environmental performance* and *initiate positive environmental change*. These activities are concerned with doing what is ‘desired’ by the stakeholders (Carroll, 2004) and they are undertaken by businesses on a voluntary basis.

One drawback of attempting to follow Carroll’s classification of corporate responsibilities into economic, legal, ethical and discretionary categories is that Carroll makes no allowance for the blurring of boundaries between those categories. Some issues straddle two or more categories, making clear separation of one category from another almost impossible. For instance, *accurate and honest financial reporting,* though classified as an economic/legal responsibility can more accurately be considered an ethical responsibility when the widely-published misdeeds of Enron and WorldCom in USA, HIH Insurance in Australia, and Parmalat in Italy are considered. These companies concealed their true financial position from the outside world by misleading accounting and false information (Becker, 2002; Buchanan et al., 2003; Galloni, 2005). Obviously *honesty* was missing in all these cases as the corporations’ directors and management resorted to using fraudulent accounting to tell lies about the financial health of their companies. Therefore *accurate and honest reporting* should be considered not only a legal responsibility, but also an ethical responsibility.

Other issues – *reduce, recycle and reuse*; *respect customers' rights* and *value for money* – which I arbitrarily placed in the category of ethical responsibilities, can equally be considered as economic responsibilities because such practices can be adopted to improve a company's financial bottom line. *Donations to charities, sponsorships* and *participate in staff community-work programmes,* though primarily considered as philanthropic or discretionary responsibilities, can be economic responsibilities as well. These activities can be seen as implementation of strategies to create economic benefits for the companies rather than as purely philanthropic initiatives (Monin and Edmiston, 1999). Schwartz and Carroll (2003) recognise the problem of classifying responsibilities into distinctive categories as some economic, legal and ethical responsibilities are interwoven and inseparable. Their Three-Domain Model of CSR shows the overlapping of the economic, legal and ethical responsibilities; and philanthropic practices are subsumed under ethical and/or economic responsibilities.

Arbitrarily classifying the 31 corporate responsibilities according to Carroll's Pyramid of CSR (1991) shows that though the concepts of CSR can be represented by economic, legal, ethical and discretionary practices; it is easier to classify the responsibilities according to their relevance to each particular stakeholder group from a practical standpoint. In fact, Carroll himself (1991) points out that the concept 'stakeholder' personalises social responsibility by delineating the groups a business should consider in its CSR orientation. Furthermore, the responsibility issues identified by the shareholders include one overlooked by Epstein (1992), Ryan (1994), Muller (2001) and Tippet (2000): shareholders' attitudes to how they believe suppliers should be treated.

The Pragmatic Shareholders

In terms of shareholders' corporate responsibility attitudes, results of the *mean* ratings of the 31 issues show the pragmatism these shareholders apply in determining how they believe stakeholders should be treated. Overall, shareholders seem to expect that corporations act responsibly toward their stakeholders: as none of the issues have a *mean* rating of less than 4 (from a scale of 1 to 7, 1 as 'not important' and 7 as 'extremely important'). Shareholders' pragmatism is further shown by their clear distinction, in terms of importance, between responsibilities that contribute to the long-term success of the companies and responsibilities of lesser importance.

Shareholders' interest in the long-term prospects of companies is shown in how they rate the importance of responsibility issues. They expect first and foremost *accurate and honest financial reporting* (M = 6.8). Companies have to look after their financial bottom line by *providing quality products and services* and *adapt to changing consumer tastes*. In the course of the business, it is expected that companies fulfill their legal obligations by *complying with environmental law/ regulations* and *ensuring a healthy and safe workplace* for employees. To meet the expectations of society at large as well as customers, companies have to *minimise* *harm to the environment* and to *provide truthful promotion and product disclosure*. That shareholders' views of companies tend to be long term is indicated by the importance they place on the *financial stability of the company* and *accurate and honest financial reporting*, and they expect companies to *maintain long-term growth in share price* and *keep them informed, faults and all* (refer to the top ten issues in Table 9.1).

The issues that shareholders consider of lesser importance tend to be mostly related to the higher level of responsibilities which are deemed desirable but certainly not of absolute importance. *Participate in staff community-work programmes, sponsorships* and *donations to charities* are at the bottom of the list of important issues.

In one respect, the way shareholders discriminate between companies' responsibilities to each individual stakeholder group is much in accord with the notion put forward by Sternberg (2000). She states that to maximise long-term owner value, businesses have to ensure that their actions are compatible with distributive justice and honesty and fairness, and that they are conducted without coercion and with respect for the law. Sternberg extends Friedman's (1970: 159) doctrine that business needs 'to use its resources and engage in activities designed to *increase its profits* [italics added] so long as it stays within the rules of the game …' to the more far-seeing view of maximising long-term owner value, keeping in mind stakeholder interests. She further states that the responsibilities of a business to stakeholders are limited but at the same time the business cannot afford to ignore any stakeholder concern that might affect long-term owner value. The way shareholders in this inquiry determine what are the most important responsibilities (for example, looking after customers) and the least important responsibilities (for example, looking after the community) appears to mirror Sternberg's viewpoint that companies should restrict themselves to fulfilling those responsibilities that are necessary, eschewing those that are not.

However, these shareholders do not appear to have the 'me first' attitude of viewing stakeholders such as staff purely in terms of serving as the means to achieve the end of maximising wealth. The importance of looking after employees is clear in the narratives of some shareholders. Interviewee shareholders, the retired banker and his wife, strongly believe that companies do not give sufficient rewards to their staff these days. These shareholders say staff should be recognised and share in the company's profits. They also want companies to provide a 'happy family-friendly work environment'. Another shareholder, the public nurse, said that companies have forgotten that employees have their own families, and employees' long working hours in a pressure environment could have negative effects on families. She believes this is a typical situation that needs to change. The two main reasons why people invest in the share market – long-term capital appreciation and the prospect of dividends – do not figure as the most important corporate responsibility issues. Other responsibilities such as caring for customers and the environment have higher ratings than *long-term growth in share price* and *regular dividend income*. The shareholders participating in this inquiry therefore do not accord with Sternberg's (2000) belief that companies should look after the interests of stakeholders only to the extent that they contribute to the sole purpose of the business, which is to maximise long-term owner value.

Furthermore, shareholders indicate that *accurate and honest financial reporting* is the most important responsibility. This is shown not only by this requirement having the highest *mean* (6.8) but also by having the smallest variation among the shareholders (*SD* = 0.50). A probable explanation as to why this responsibility outweighs the importance of all others may be the result of the flow-on effect of corporate scandals such as Enron, WorldCom, and the closer to home case of HIH Insurance in Australia. Shareholders are now more aware of the importance of 'honest' financial reporting not only for themselves but for other stakeholders as well. Financial reports are not prepared for shareholders only, they are also used to inform a wide range of stakeholders who are interested in the company and its activities, for example, suppliers, employees, potential investors and possibly pressure groups and local society groups (Crowther, 2004).

It is significant that in the studies of shareholders' corporate responsibility attitudes by Epstein (1992), Ryan (1994), Muller (2001) and Tippet (2000), the issue of *accurate and honest financial reporting* was not noted by the authors, possibly because at that time shareholders had yet to be exposed to the scandals of companies 'fiddling' their books to the tune of billions of dollars. It is likely that a*ccurate and honest financial reporting* will remain an important issue for shareholders for a long time.

Empirical evidence that supports the finding of this inquiry that shareholders *do* have concerns for other stakeholders can, however, be found in Epstein (1992), Ryan (1994), Muller (2001) and Tippet (2000)[5]. Epstein's (1992: 83) shareholders want their companies to put more funds into cleaning up their plants, stopping environmental pollution, and improving products, 'even when that means receiving smaller dividends'. Ryan's (1994) shareholders indicate that long-term profits are more important to them than short-term profits. Muller's (2001) shareholders expect companies to place fairness to employees ahead of making money for shareholders. Tippet's (2000) shareholders rank professional/good business practice as the most important.

Some authors also observe that shareholders have interests other than the economic aspect of their companies. For instance, the interests of shareholders are not narrowly economic; companies are generally expected by shareholders to pursue some socially desirable ends (Boatright, 2000); and the assumption generally made that the sole consideration of shareholders is increases in dividends and in

5 As the terminology used to describe the corporate responsibility issues nominated in each of these four studies and the ones identified in this inquiry is mostly different from one another, a direct comparison between the importance shareholders place on each of the issues cannot therefore be usefully made.

the market value of shares may not always reflect reality (Söderbaum, 2000). In addition, Pava and Krausz (1995: 147) state:

> *Intuition* [italics added] and the available evidence[6] suggest that shareholders, even in their role as shareholders, behave much like the rest of us in terms of meeting perceived ethical as well as economic obligations.

Taking into consideration the corporate responsibility priorities of shareholders in this inquiry, it is clearly wrong to assume that shareholders predominately have no concerns other than maximising their long-term profits. The last part of this section compares shareholders' attitudes to corporate responsibility with those of the consumers found in Mercer (2003) to further illustrate that shareholders are not so self-interested that company managements have to look after shareholder interests first, as is so commonly claimed.

Shareholders versus Consumers

Interestingly, the priorities that the New Zealand shareholders place on corporate practices are quite different from those of the American consumers studied by Mercer (2003). The consumers, according to Mercer, place the greatest importance on those business activities that most directly affect their own well-being as consumers. This is shown by the fact that, of the 22 activities cited, the four related to consumers – provide high quality and dependable products and services, honestly communicate to consumers, manufacture products that are safe and offer products and services at reasonable prices – are rated at the top. Business activities that affect society at large, and employees, are considered as moderately important by the consumers. Of least importance is the responsibility to shareholders. In contrast, the New Zealand shareholders clearly indicated that the needs of customers have to be looked after, and that companies have to assume the responsibility of looking after the environment by minimising harm and complying with the law and regulations ahead of their own needs, growth in share price and dividend income. The self-interest element shown by Mercer's consumers is not shared by shareholders.

The assumption that shareholders are interested primarily in capital appreciation and dividend income is not borne out by reality. The three strands of this inquiry, by delving deep into the values of shareholders, have uncovered the duality within those values. The self- and others-oriented values have different roles to play in shareholders' share-buying decisions and they are discussed in more detail in the next section.

6 This refers to the study conducted by Epstein and his colleagues which is cited as Epstein (1992) in this inquiry.

Concluding the Three Strands of Inquiry

To conclude this chapter, I will focus on the values of shareholders to illustrate that they are not strictly rational self-interested profit maximisers as is usually assumed.

Dobson (2003: 384–386) argues against the assumption that personal wealth maximisation is the ultimate objective of individuals. He states that it is 'unjustified and injustifiable' from both an economic and a moral perspective to consider that investors should behave in a way consistent with economic rationality. Dobson describes the essence of rationality as the ability of an individual to make consistent preference orderings over a broad spectrum of choices. He argues that in reality people do not act in such a consistent manner. I will expand Dobson's argument by analysing the behaviour of the interviewee shareholders. The reason I focus on Phase One of this inquiry is that it employed a qualitative methodology that drew out the actual behaviour of shareholders. Their value-based judgments became evident when they explained why some companies are in their share portfolio and some are not.

Let us assume that all shareholders are economically rational and their sole interest is to maximise their return on investment; this means that shareholders will consistently seek to invest in the companies that offer the highest returns. To do so, shareholders would have to constantly buy and sell shares. In reality shareholders do not act in this way. A number of authors confirm this, pointing out that shareholders tend to invest for the long haul (see for example, Kennedy, 2000; Muller, 2001); and many investors tend to be passive and trade sparsely (Wärneryd, 2001). These authors' views were confirmed by the majority of the interviewee shareholders in this inquiry. Their comments include 'I buy them to keep them forever', 'some shares I've held for 30 years' and 'I buy shares with a view not to sell, but to increase the volume of my portfolio'. Shareholders hold shares for the long term, as shown in the retired engineer's briefing of his sharebroker: 'You sell me a share that you think will be all right in 10 years' time.' These shareholders simply do not turn over their share investments in an effort to chase the highest returns.

Another body of evidence that shows shareholders are not predominantly interested in maximising financial returns is that the decisions they make in selecting companies they finally invest in are subject to the influence of their own values. The results of this inquiry show shareholders expect *honesty* not only as a guiding value for themselves, they want similar behaviour from company directors. Some shareholders refuse to invest in a company if they feel the *honesty* of a director on the board is compromised. That the guiding value of *fairness* has a strong influence on shareholders is shown when they reject companies as investment targets because they believe that those companies are exploiting people who are vulnerable. Some shareholders who are motivated by *a world of beauty* often seek to invest in companies that contribute positively to the environment. These shareholders are even willing to sacrifice financial returns to follow their values, as indicated by their comments that even though they know that Sky City is making good profits, they still will not invest in a company that runs casinos.

A majority of shareholders decide to invest in shares in accordance with the self-oriented motivational value *a comfortable life*, which is as expected. However, their others-oriented values – *fairness, honesty, a world of beauty* and a *world at peace* – are triggered when they subsequently decide what companies they would prefer to buy shares in. This illustrates that shareholders' values play different roles in the share-buying decision process. Shareholders are motivated by the self-oriented *a comfortable life* when they decide to invest because they want to be financially secure. When it comes to selecting the actual companies to invest in, they are influenced by their others-oriented values. *Honesty* and *fairness* guide shareholders away from investing in companies that they believe would compromise their personal values, whereas *a world of beauty* and *a world at peace* motivate shareholders to invest in companies that they believe are good corporate citizens. Shareholders hold both self- and others-oriented values; the choice of action seems to depend on the strength or intensity of the dominant value that applies to each decision situation.

The intensity of the dominant value that impacts on shareholders' share-buying decisions is shown through the commitment that shareholders hold towards the choice they have made. There are two types of intensity: one will result in 'conscious decisions' which show a high level of commitment; the other, 'altruistic intentions', demonstrates a lower level of commitment.

Conscious decisions mostly stemming from the guiding value *fairness* are prime examples of how shareholders can demonstrate high commitment to a value. This can be seen in the narratives of a number of interviewee shareholders. Though the retired banker's friends think he is stupid because he would not invest in Sky City, he does not care what his friends think and he is committed to his decision made on the basis that the casino operator exploits peoples' weaknesses. The architect, who did not like to tell his sharebroker that he did not want to invest in Sky City, said that every time the sharebroker recommended this company, he said no. The management adviser admitted that he was tempted to invest in Sky City and The Warehouse when clearly there were going to be good financial returns, but then refused to do it. These shareholders are committed to their value-based decisions and will not be swayed.

On the other hand, the commitment of shareholders to altruistic intentions is relatively weak. It is largely related to the others-oriented motivational values *contribution to society, a world of beauty* and a *world at peace*. An example is the case of the teacher and the public nurse who were motivated by their others-oriented values to stipulate to their sharebroker that they wanted to buy shares in companies that are contributing positively to the environment. But when one company they invested in turned out to be polluting the environment, they compromised their values by not selling the shares immediately, saying they would 'look into it'. Such inertia would not have occurred if these two shareholders were purely others-oriented. In others words, their commitment to their others-oriented values is not really strong. Another shareholder, the retiree, who holds the value *a world of beauty*, is sitting on the fence as to whether to invest in a company that he knows has a number of convictions for polluting the environment. He said that currently he did not hold shares in that company, but that did not mean that he would not buy some in the future. In most cases, shareholders hold others-oriented values and so have ‘altruistic intentions’, but the influence of these values on shareholders’ behaviour seems to be a lot weaker than the influence of the *fairness* that produces ‘conscious decisions’.

Analysis of the narratives of the participants in Phase One provides insights about the role values play in the share-buying process. At the beginning of the process, investors are motivated by the self-oriented *a comfortable life*, then in the course of making their choice of companies to invest in, their others-oriented values exert varying degrees of influence. Depending on the strength of the dominant value that drives their choice decisions, their commitment to others-oriented motivational values (for example, *a world of beauty*) may not be strong enough to produce action when they find a company they have invested in contravenes their values. It seems that in cases where commitment to others-oriented values is based on altruism, shareholders are likely to assert their self-orientation. At the same time, it should be remembered that there are many shareholders who are so committed to *fairness* that they cannot be swayed by monetary gain. This interplay between the self- and others-oriented values is typical of the shareholder share-buying decision-making process. Lewis (2002: 165–166) provides a good summation that applies to this interplay between the values of the shareholders:

> [S]elf-interest is not dismissed entirely, it is just that other types of motives are allowed as well – concern for others, moral commitments and varying forms of altruism. One’s base ‘instincts’ might be to satisfy only oneself; our more moral selves take others into account, alongside a sense of duty and responsibility.

In concluding discussion of the three strands of this inquiry, I restate that the way shareholders behave and act according to their values orientations counters the popular assumption that they are strictly rational self-interested profit maximisers. Shareholders are influenced by their values, with the result that they do not base their investment decisions solely on maximising their financial returns. This accords with Etzioni’s (1988) observation that people typically choose means largely on the basis of emotions and value judgments, and that they do not render rational decisions.

The last chapter of this inquiry reviews its key findings from theoretical and practical relevance standpoints. It then shows the vital and strategic roles that small shareholders can play in both the corporate and investment worlds. Lastly it suggests follow-on researches that can build on the knowledge gained from this inquiry.

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Chapter 10
Trends and Developments

To conclude this account of my investigation into the values of ordinary small shareholders and their investment decision making, I need first to discuss the results which emerged from the inquiry in light of both their theoretical contributions and their practical relevance. Not only will the knowledge gained from this inquiry be of use to both the corporate and investment worlds, it will also help small investors understand their investing selves, and how better to manage their portfolios, by becoming aware of the non-economic factors that guide their investment decisions. I follow this with an examination of the roles of small shareholders in the corporate landscape. In light of world-wide trends that foster individual share-ownership and the rise of small-shareholder activism, it is foreseeable that small shareholders – as pragmatic long-term investors – will have a strategic part to play in their companies' uptake of corporate social responsibility. The final part of this chapter is a discussion of how an inquiry of this kind can be extended to countries which have different cultures, and to the wider group of indirect shareholders who invest in mutual and superannuation funds.

Results Highlights and Their Applications

The discovery and analysis of the values that motivate and guide shareholders (the first strand of inquiry) provides a coherent picture of how ordinary shareholders make their share-buying decisions in light of these values. The key finding shows that shareholders who are solely driven by the motivational value of *a prosperous life* (affluent, wealthy) constitute such a small minority (only 1.3 per cent) that it throws considerable doubt on the simplistic assumption that shareholders are concerned only with maximising their wealth. In fact, shareholders' decisions are driven by their other values: almost half of the shareholders demonstrated that their involvement in equities is motivated by the desire to be financially secure and content (*a comfortable life*) and to look after loved ones (*family security*). Striving for *a comfortable life* is a very different ambition from the desire for *a prosperous life*. The former emphasises contentedness, and money is seen by the shareholders as a means to an end, whereas the latter emphasises striving purely for monetary success and material wealth.

This inquiry shows the shift between values in different stages of the decision-making process. Broadly, shareholders are motivated by *a comfortable life* and *family security* when they decide to buy shares, but during the company selection process, their guiding and others-oriented values come to the fore when the situation warrants. For instance, the guiding value *fairness* that is oriented more towards concern for others rather than self, comes into play and influences shareholders when making their choice of companies. This group of shareholders is willing to sacrifice financial return by not investing in companies that they perceive as exploiting people who are vulnerable. This shows that ethical consideration does have an influence on ordinary shareholders in their decision making; placing ethics before material gain is not solely the domain of ethical investors. The impact of others-oriented values (for example, *fairness* and *a world of beauty*) on the company selection process highlights that the Economic Man concept is too simplistic to use in explaining and predicting the behaviour of ordinary small shareholders. As Tigges et al. (2000: 127) point out: 'When *"Homo Economicus"* stands for rationality of financial decision making, then this is clearly an ideal state not found in real life.'

The matrix of shareholders' values (refer to Figure 4.1) shows the set of 11 core values (*a comfortable life, a prosperous life, family security, an active life, contribution to society, a world of beauty, a world at peace, honesty, fairness, excellence* and *independence*) that guide and motivate shareholders' personal lives and their share-buying decisions. It reflects the bipolar dimensions of human values – personal versus social, and self-enhancement versus self-transcendence – put forward by Rokeach (1973) and Schwartz (1992, 1994), and at the same time it clearly sets out the values that shareholders apply to their investment decisions.

An interesting finding drawn from examination of the qualities of directors (the second strand of inquiry) is that though theory suggests that the values an individual desires of oneself might not be the same as those desired of others, empirical evidence shows there are obvious exceptions. This is illustrated by the shareholders who nominate *honesty* as not only an important guiding value for themselves but also an expected behaviour from company directors. The ethic of *honesty* is further reinforced by the priority shareholders allocate to *accurate and honest financial reporting,* which is at the top of the list of corporate responsibilities.

The third strand of inquiry – shareholders' attitudes to corporate responsibility – unexpectedly showed that shareholders rate the provision of accurate and honest financial reports well ahead of *maintaining long-term growth in share price* and *dividend income* for them (refer to Table 9.1). Furthermore, issues such as *striving for company financial stability*, *truthful promotion and product disclosure* and *minimising harm to the environment* are rated higher in importance than maintenance of long-term share price growth. The implication is that these shareholders do not have a 'me first' attitude which is contrary to the narrow shareholder theory which presumes the pre-eminence of shareholders over other stakeholders. It is clearly erroneous to assume that ordinary shareholders seek primarily to have companies maximise wealth for them and consider other stakeholders' interests to be secondary to their own.

The findings of this inquiry support the statement by Connor and Becker (1994) that values underlie attitudinal processes. I in turn postulate that there is a link between individual shareholders' values and their perceptions of corporate responsibility. Correlational analysis shows that at one extreme of the values spectrum (Figure 9.1), the deeply self-focused motivational value *a prosperous life* bears virtually no relationship to any aspects of corporate responsibility other than those related to increasing financial returns[1] (refer to Table 8.3). And at the opposite end of the spectrum are the others-oriented values (*contribution to society, a world of beauty* and *a world at peace*) which are associated with the well-being of stakeholders. Within this spectrum are the three other self-oriented motivational values (*a comfortable life, family security* and *an active life*) which, to a lesser degree than the others-oriented values, are associated with most corporate responsibility issues.

The complexity of human nature is reflected in the values of shareholders: they simultaneously hold a range of values which are both self-oriented and others-oriented. The merging of the three strands of inquiry through factor analysis shows the duality of shareholders' values orientations, represented by 'the economic self' and 'green/social values'. The economic self strives for *a comfortable life* and has concerns for the economic activities of companies. These include providing quality products and services to customers, maintaining long-term growth in share prices and the financial stability of the company. The economic self also expects directors to demonstrate competence in monitoring those economic activities. The other side of the dual self is manifested by green/social values which are others-oriented and arise from the values *a world at peace* and *a world of beauty*. This others-oriented self wants companies to take all care in looking after the environment and assume responsibility for reporting their social and environmental performance. Obviously, these two sides of the self are in a state of tension, thus adding complexity to our efforts to understand the nature and behaviour of shareholders.

In terms of practical relevance, the results of this inquiry will be of benefit to corporates, the finance/investment industry, and to individual shareholders themselves. The hierarchy of shareholders' corporate responsibility concerns (see Table 9.1) clearly sets out the issue that is of utmost importance (*accurate and honest financial reporting*) and those which are considered more of a discretionary nature (for example, responsibility to the community). This hierarchy of shareholders' concerns not only provides corporate directors and management with insights into how shareholders believe employees, customers, shareholders, suppliers, the community and the environment should be treated, it also indicates the importance shareholders ascribe to each of those responsibilities within each stakeholder group. For example, in terms of looking after the environment, they believe it is most important to take steps to minimise harm to the environment; in terms of looking after employees, companies have to first ensure the workplace is healthy and safe. The pragmatism of small shareholders is shown by how they prioritise each issue of corporate responsibility and also that they understand that

1 *A prosperous life* is not rated highly at all by the shareholders; only 1.3 per cent indicated that it has a mild influence on their share-buying decisions.

a business cannot survive if it does not look after the major groups of stakeholders. It will therefore be of benefit to companies to take steps to address these concerns expressed by small shareholders. In fact, the specific descriptions of each of the corporate responsibility issues also serve as useful guidelines for corporate managements to build enlightened relationships with their non-shareholder stakeholders.

Results from the investigation of the qualities shareholders expect of company directors offer a fresh analytical perspective – that of looking at corporate governance through the eyes of small shareholders. The emphasis these shareholders place on directors' *integrity* (trustworthy) and *openness* (truthful, honest) shows that the ethics of directors are as important to shareholders as the basic requirement of *competence*. In light of the corporate scandals of Enron, WorldCom, HIH Insurance and Parmalat, in which greed and dishonesty of corporate executives was uncovered, it is not surprising that the ethical qualities of directors are of considerable concern to ordinary shareholders. The list of nine qualities (*integrity, openness, competence, accountability, commitment, courage, leadership, innovation* and *prudence*) shareholders want from their directors provides empirical confirmation of the arguments put forward by a number of scholars (for example, Sonnenfeld, 2002, Finkelstein and Mooney, 2003) who state that the purely structural (check and balance) approach is not adequate for good corporate governance; the ethics of those who run the company and those who look after the interests of shareholders also needs to be taken into account. The list of qualities shareholders expect of company directors as identified in this inquiry offers an up-to-date framework for assessing the attributes of directors.

The marketing of financial services seems to be built upon the presumption that all investors are active and always eager to increase their wealth (Wärneryd, 2001). Because of this presumption, there is a need for change within the financial industry as far as its current perceptions of ordinary shareholders is concerned. This inquiry has demonstrated that there are more factors that contribute to shareholders' investment decisions than mere risk and return. It points the way to tools[2] that will enable financial investment advisers to analyse the values of their clients and thus gain a more in-depth understanding of their needs, rather than categorising them solely according to their risk attitudes.

By demonstrating that values have a large part to play in the investment process, this investigation may help shareholders to become more aware of their own values in the context of investment in corporations. I was very pleased to receive feedback from some of the shareholders who took part in the pilot testing and questionnaire survey. Their comments include: 'your questions have made me think!!'; 'a thought provoking and challenging questionnaire'; 'this is a reasonably searching inquiry'; 'this is a very interesting exercise. I have never really thought in depth about why I invest in particular companies. Deep down, I probably used

2 Refer, for example, to the indirect questioning technique detailed in section 'Interviewing the shareholders' in Appendix I.

a lot of your examples without thinking about them'. It was most encouraging to receive further feedback from one of the respondents 6 weeks after he took part in the questionnaire survey. He said in his letter: 'Your questionnaire has made me think a lot about the way I invest in particular companies.' I believe that individual investors will benefit from such reflection. By looking inwards and finding their own motivational and guiding values, shareholders can understand the motivations and restraints behind their investment decisions and so become comfortable with their own investment philosophy.

This inquiry of shareholders' values and their choice decisions serves as a starting point for developing a deeper – even holistic – understanding of individual shareholders' investment behaviours. Our knowledge now extends beyond basic demographics and some superficial behavioural aspects[3] of individual share owners. By adding a values-based dimension to the share-buying decision-making process of the shareholders, we now have empirical insights into what makes shareholders choose one company and not another. Indeed, it is clear there is much more to the behaviour and attitudes of shareholders than meets the eye; I have shown it is a misconception that ordinary small shareholders are driven solely by a concern to chase the highest return from the equities market they put their money into.

Small Shareholders in the Corporate Landscape

The attention that in recent years has been focused on the rise of institutional share ownership seems to have obscured the fact that in a number of countries there are more individuals who own shares either directly or indirectly than were 20 years ago. During this period, countries such as the USA, Australia, Canada and Hong Kong have experienced at least a three-fold increase in the number of direct and indirect share owners[4]. Furthermore, a recent report on the share ownership structure in Europe released by the Federation of European Securities Exchanges in 2007 shows individuals participating in share ownership have increased in Poland, Belgium, Denmark and Italy. The key factors that contribute to the vast increase in the number of individuals directly owning shares are mainly the number of privatisations of state-owned enterprises, demutualisations and public offerings from privately-owned firms. In other words, small shareholders still are, and will remain, a necessary part of the corporate share-ownership structure.

Since the 1980s, the spread of privatisation programmes by governments around the world and growth in share-issue privatisations have dramatically increased the number of share owners in both developed and developing countries. For instance, in the UK, the privatisation of British Telecommunications and BG

3 For example, knowing the number of companies shareholders invest in, their time horizons, their sources of information and that they choose their target company by gut feel (refer to discussion in Chapter 1).

4 Detailed discussion in Chapter 1.

(formerly British Gas) yielded 2 039 977 and 1 230 604 shareholders respectively (Boutchkova and Megginson, 2000). In Australia, the public float of Telstra attracted 1.9 million shareholders in its initial listing (Reserve Bank of Australia, 1999). The flotation of the Mass Transit Railway Corporation in Hong Kong attracted 300 000 retail investors (Surveys Reveal More Retail Activity in World Stock Markets, 2001). In countries with small populations the trend is the same. In New Zealand, the privatisation of Contact Energy resulted in 190 155 shareholders listing on its share register and most of them had never owned shares before (Kerr et al., 2005). Moreover, Boutchkova and Megginson say that in many cases, and usually in countries with little tradition of individual share ownership, a single privatising share issue will yield over 1 000 000 shareholders. Indeed, a vast number of first-time investors are drawn to share-ownership through advertisements in the media and television promotions, thus increasing the population of direct shareholders substantially.

Another avenue that helps boost the number of shareholders is demutualisations of insurance and life offices, building societies and stock exchanges. For instance, in AMP's share market listing in 1998, 10 per cent of Australia's adult population received shares, and a significant proportion of these recipients were likely first-time shareholders. The result was that AMP recorded 1.4 million shareholders in its initial listing (Reserve Bank of Australia, 1999). The demutualisation of UK's Abbey National Building Society in 1989 created a great number of new shareholders out of their customers. Of the 5.6 million customers who received free shares, 3.5 million had never owned shares before. As a result, the number of UK shareholders increased by more than 50 per cent: from six million to 9.5 million (Abbey National plc, 1989).

The positive effect of privatisations and demutualisations is that they have provided impetus during recent years to the rise in individual share owners, though it is also noted that there is a degree of volatility among new shareholders. The number of shareholders in demutualised and privatised companies tends to decline after the initial listing as individuals realise capital gains by selling their holdings (Reserve Bank of Australia, 1999). However, this outflow of shareholders is likely to be offset, to an extent, by other new share-issue offers. As Boutchkova and Megginson point out, while some new shareholders do not retain their share purchase from privatisations, they are likely to be enticed by subsequent share offerings because of their first experience of making a capital gain in stock market trading. The authors also say that most governments, in order to maximise political support for privatisation and for ongoing economic reforms, consider it vital to design share issues that attract large numbers of domestic investors and to price the shares so that first-time investors earn capital gains.

One further point Boutchkova and Megginson make is that the sell-out by new shareholders seems to depend on the size of the privatised company. The decline in shareholder numbers tends to occur in large share-issue privatisations which yield over 100 000 shareholders; for those with fewer than 100 000 initial holders, there is no statistically significant decrease in the first year, and in fact the number of shareholders tends to increase over time. Similar patterns can also be found in initial public offerings (IPOs) of non-privatised firms. The number of shareholders in private firms with fewer than 100 000 shareholders increases with time, but the same cannot be said of firms that have more than 250 000 shareholders. I believe that despite some individuals flipping their shares after the initial listings, there will be always be another wave of investors taking part in other privatisations[5], demutualisations and IPOs.

Though public listing activities fluctuate each year and vary between stock exchanges, retail investors are likely to be drawn to IPOs which offer them a chance to invest in new industries of the time. A study by McKenzie (2007) on new public listings in 38 stock exchanges world-wide shows that in years between 1995 and 2002, the NASDAQ had the highest number of IPOs, an average of 413 listings per year; the London Stock Exchange had a low point of only 161 listings in 1999 but a record 366 listings in 2000. For emerging markets, *The Economist* reports an ‘IPO-fever’ that had as many as 27 firms making their debut on the São Paulo exchange in the first half of 2007, surpassing the total number of floats in the whole of the previous year (The View from Cloud Nine, 2007).

While the impact of IPOs on the increase of individual shareholders may not be as dramatic as that for privatisations and demutualisations, IPOs do add to the population of direct share owners. Some companies target retail investors in their IPOs in order to achieve a wide spread of shareholders. In the case of J Sainsbury plc in the UK for example, the company’s public flotation in 1973 was at that time the largest ever on the London Stock Exchange, with a 45-fold over-subscription for shares. Preference was given to small shareholders in the allocation of shares (J Sainsbury plc, 2007). This shows that from the eyes of some corporations, retail investors do have an important part to play in IPOs.

IPOs are attractive to potential retail investors and to those who already own shares because they offer them chances to diversify their portfolios with new asset classes and new sectors such as information technology, mining companies, health care and biotechnology stocks. Moreover, with easy access to the Internet, individual investors can get up-to-date information on IPO listings. For instance, the All IPO website (www.allipo.com) provides UK investors with access to IPOs (All IPO Gets All Clear, 2005); and the website of the Australian Shareholders’ Association (www.asa.asn.au) lists all companies preparing to float on the Australian Stock Exchange.

In an environment of privatisations, demutualisations and IPOs, small shareholders will continue to be a vital segment of the corporate and financial market, and their importance should not be downplayed. In fact, at times of stock market crashes or market corrections, the importance of retail investors is further

5 In instances where the state-owned enterprises were partly privatised, subsequent sell-downs by governments followed. For example, The Commonwealth Bank in Australia had 210 000 shareholders when it was privatised in 1991. This increased to 420 000 with the third sell-down in 1996 (Reserve Bank of Australia, 1997).

brought to the fore. As a majority of individual shareholders are passive long-term investors and have a buy-and-hold attitude, they are a segment of the passive investors that Wärneryd (2001) suggested made recovery from the October 1987 share market crash easier and smoother after the professionals panicked. Indeed, a number of survey studies affirm that individual shareholders tend not to react at times of vast drops in share prices. In a recent Swiss survey, share investors were asked how they would react if their equity holdings lost 20 per cent of their value within a week. Seventy one per cent of the respondents indicated that they would stick to their holdings and 15 per cent said they would buy more equities. Only 3 per cent of the investors said they would bail out and 8 per cent would reduce their equities (Cocca et al., 2006). In the USA, equity investors do not demonstrate a pattern of buying or selling equities in response to stock market conditions (Investment Company Institute and The Securities Industry Association, 2005). According to a UK survey conducted by Ipsos MORI (2002) a year after the September 11 attack in the USA, share investors were selling on fewer occasions than the year before and increasingly cited market turmoil and crashes as the main reason for not selling their shares.

The inaction of retail investors during stock market corrections was further shown in late January 2008, at the time this chapter was being written. On the New Zealand front, brokers reported that most selling appeared to be by institutional investors; there was little sign of panic among retail investors (Bennett, 2008a and 2008b). Similar reports emerged following the stock slide in July 1998, when the Dow Jones Industrial Average dropped 10 per cent from an all-time high. A number of brokers said that they were not seeing any big selling by retail investors (Reerink, 1998). Individual investors do have a stabilising effect on financial markets. This is recognised in a 2002 report by the International Monetary Fund (IMF) where it is stated that one of the reasons for the global financial system's resilience is the increasing participation of retail investors and households in equity markets. According to the IMF, if retail investors continue to invest in equities, selling pressures could remain contained; it would be reasonable to expect that financial resilience and stability would continue.

The conclusion that retail investors do have an important role to play in the financial markets is, unsurprisingly, supported by stock exchanges world-wide which have conducted regular surveys on share investors in order to understand their demographics and such behavioural aspects as their trading frequency, sources of information and time horizons of their share investments. For instance, the Australian Securities Exchange has been conducting such surveys since 1991 and their most recent survey in 2007 is the tenth in the series (Australian Securities Exchange, 2007). Other stock exchanges and research organisations (for example, New York Stock Exchange, Toronto Stock Exchange, Ipsos MORI, Hong Kong Exchange and Clearing Limited and New Zealand Stock Exchange) have made similar studies.

The participation of small investors is also important in IPOs. From the companies' standpoint, and especially for small and medium-sized enterprises, retail investors absorb any excess supply of shares beyond institutional demand and they are also the prime group of investors that absorbs the supply of shares that are resold in the after-market by institutional investors. They thus help to maintain value and stability in the post-IPO market (Industry Canada, 2001). Moreover, retail investors tend to fill the void that exists when institutional investors do not participate in an IPO because the company did not have a proven track record (Gaynor, 2007). Retail investors are of value also in the creation of liquid markets for small company equities where institutional trading is often very small (UKSA, 2007a). Hence, retail investors are important for these companies. In the corporate view, however, the *perceived* value of retail investors seems to stop short at IPOs. It appears that until the advent of small-shareholder activism, oftentimes small shareholders were ignored by corporate management because they had neither the clout nor the knowledge to influence the behaviour of their companies. A review of past and more recent events shows that shareholder activism is not confined solely to institutional investors. Small-shareholder activism signifies that small shareholders do not want to be treated as absentee owners, and it is encouraging to note that the managements of some companies are starting to build an investor relationship with their small shareholders.

During the past few decades, and especially the 1990s, there has been a steady increase in the incidence of small shareholders banding together to form shareholders' associations in order to voice their concerns on corporate governance matters and to assert their rights to be treated by corporate managements equally with institutional shareholders. These small-shareholder movements are found in a number of countries. The Australian Shareholders' Association was established in 1960 and today it has about 8000 members (Personal Communication, 11 December 2007; Australian Shareholders' Association, 2007). Euroshareholders – a confederation of 29 national shareholders' associations all over Europe – was founded in 1992; one of its aims is to protect and represent the interests of private shareholders (Euroshareholders, 2007). Of a smaller scale is the New Zealand Shareholders' Association (NZSA) formed in 2001. Its current membership is about 1100. In 2006/07, NZSA experienced an influx of about 500 members which was directly linked to shareholders' reactions to the collapse of the publicly-listed Feltex Carpets (Personal Communication, 11 December 2007). Feltex was floated in June 2004 and was in receivership 27 months later due to mismanagement and poor governance.[6]

Obviously, small shareholders realise that individually they do not have a voice, but their chances of getting heard increase if they act collectively and there have been instances of success. Strickland et al., (1996: 337) use the results of the United Shareholders Association (USA) to illustrate that small shareholders

6 *The New Zealand Herald* reports that 'institutional investors shunned Feltex's share float, regarding it as a dud' (Securities Commission Urged to Take Another Look at Feltex Failure, 2007). This is an example showing the importance of small investors' participation in IPOs. At the same time it shows the vulnerability of retail investors.

can successfully affect the corporate governance of large firms. The USA was founded in 1986 comprising primarily of American individual investors with its main goals centred on campaigning for the rights of shareholders. The USA monitored the activities of public corporations and developed a *Target 50* list of firms. The targeted firms were those with poor financial performance, top executive compensation plans that were unrelated to firm performance and policies that limited shareholder input on governance issues. The USA firstly attempted to negotiate agreements with target firms, and if that failed, then used its more than 65 000 members to sponsor proxy proposals that encouraged firms to change their governance structure. Though the USA was disbanded in 1993 because its board members considered that their goals had been accomplished, it is a showcase for small-shareholder activism and, as Strickland et al. point out, it demonstrates that monitoring by small shareholders is possible and that it can be successful.

During the last 15 years, small-shareholder activism has gained momentum, as evidenced by the number of shareholders' associations formed in the 1990s, and some of their campaigns have borne fruit. A recent article in the *International Herald Tribune* reported that 'the head of the Dutch shareholder association VEB successfully took ABN AMRO's management to court for bypassing shareholders when selling one of the bank's most attractive assets' (Werdigier, 2007). The Australian Shareholders' Association (2007) has representation on a number of governance bodies including the Australian Securities Exchange Corporate Governance Council. It is most interesting to note that companies are becoming more receptive of their small shareholders: it is now a common activity for members of shareholders' associations (for example, The United Kingdom Shareholders' Association and New Zealand Shareholders' Association) to visit companies and meet with their senior executives, thus opening a dialogue between company managers and small shareholders. This kind of activity may be common now, but it was almost inconceivable a few years ago. The fact that companies are now making efforts to have two-way communication with their individual investors indicates that small shareholders have found their voice.

On the corporate social responsibility (CSR) front, this inquiry has revealed the practical concerns small shareholders have for other stakeholders and the environment – concerns of which companies need to be made aware. The hierarchy of shareholders' concerns shows the pragmatic side of small shareholders and that they do understand that the need for companies to look after non-shareholder stakeholders is part and parcel of achieving long-term profitability and financial stability. Couple this with the fact that small shareholders are long-term investors, and it is inescapable that, logically, they are the share owners that corporate managements need to consider most, especially during times of change when corporations have to undertake long-term development rather than maintain a narrow focus on short-term profit maximisation.

Unlike fund managers who have to report their short-term performance to investors, direct share owners are answerable only to themselves. My research shows that most small shareholders do not sell out even at times when their company is not performing, a situation which usually results in a substantial drop in the share price. One of the reasons is that small shareholders do not like to realise losses and they therefore hang on to their shares. The other reason is that these shareholders tend to invest in shares with money that they can spare, so they can afford to continue supporting their company during tough times in the hope that the share price will go back up (Chiu and Monin, 2004). The implication is that small shareholders are the type of patient investors that companies need to support their initiatives towards corporate social responsibility. As Useem (1996) states, companies need to rework their shareholder base if the shareholder mix does not match the firm's strategy: patient investors are required when the firm expects slow growth. In today's world, where CSR is increasingly becoming an important part of how businesses are conducted, it will be beneficial for companies to establish more enlightened relationships with their individual shareholders and, especially, take note of their concerns about corporate responsibilities.

Though one may argue that a substantial proportion of corporate shares are now owned by institutional investors and draw the conclusion that small shareholders do not really count, we should not lose sight of the fact that these same institutional investors are managing money on behalf of the millions of indirect shareholders who invest in pension/superannuation funds and equity mutual funds. It would therefore be useful for these fund managers or the trustees of the funds to discover what those indirect individual shareholders feel about CSR. This leads to the final part of this chapter which makes some suggestions about how we can build on what we now know about small shareholders.

Looking Forward

Through this inquiry we have gained a deeper understanding of small shareholders, nevertheless there is still a huge gap in our knowledge of the behavioural characteristics of individual shareholders that needs to be filled. The findings from this inquiry show, in very broad terms, that shareholders' values and corporate responsibility attitudes do have an influence on the choice of companies they invest in and we now need to build on this knowledge. Obviously, small shareholders are not a homogeneous group, there are therefore a number of areas that should be looked into and I believe results from further investigations will be of great benefit to the corporate world and the investment industry. Three fundamental questions are raised to guide further inquiries: What are the differences and similarities between shareholders of different countries in terms of their values, values priorities and corporate responsibility attitudes? What are the values priorities and corporate responsibility attitudes of indirect shareholders? How do the values priorities of ordinary shareholders compare with ethical investors?

In Chapter 9, I suggested, somewhat boldly, that it is likely that shareholders in Australia, New Zealand, Great Britain and Canada – countries which share a similarity of basic values – may share a similar values hierarchy. Accordingly, I would like to see this inquiry of shareholders' values replicated in Australia, Great Britain and Canada. As cultures differ between countries, the motivational and guiding values enumerated in this inquiry are unlikely to represent a comprehensive set of universal shareholders' values. Further researches are required to find out how shareholders of different cultures relate their values to their share-buying decisions. Results of these cross-cultural shareholders' values studies will add to our global knowledge of retail investors.

In Chapter 8, I raised the issues of 'conscious decisions' and 'altruistic intentions' to signify shareholders' commitment to their others-oriented values; the former describes high commitment and the latter describes weak commitment. More work is required in this area to find out how much commitment shareholders have to their choice-of-company decisions. My suggestion is to have a bigger sample to qualitatively investigate the extent to which shareholders' values and concerns are translated into action. Associated studies could test the list of corporate responsibilities identified from shareholders to discover what differences and similarities exist among shareholders globally. From the applied business research perspective, it will be of strategic benefit to the boards of directors and corporate managements of individual companies – especially for small and medium-sized companies with a large retail investor base – to understand their own shareholders by finding out their expectations on how major groups of stakeholders and the environment are to be treated, and to measure how committed they are to the company's long-term developments.

As there is an ever-increasing number of individuals who own shares through their pension/superannuation funds and equity mutual funds, study of this nature should also be extended into investigating the values and corporate responsibility attitudes of indirect shareholders. Though these shareholders do not make decisions themselves on what shares to buy, it is important for fund managers and the funds' trustees to gain greater understanding of their clients so as to structure share portfolios that better meet their various values profiles and also their corporate concerns.

Lastly, this inquiry has shown that ordinary shareholders demonstrate ethical considerations similar to those of ethical investors when they decide on their choice of companies. Follow-on research to establish the extent of any differences between ordinary and ethical investors could make a considerable contribution to existing investor theory and the global investment industry.

Appendix I
My Research Journey

> The interview is the oldest and simplest method of learning a person's values ... Its major limitation is its time-consumingness which bars its use with large numbers of respondents. One solution is to combine intensive interviewing of a limited number of persons, perhaps a random sample of the total, with giving of questionnaires to the total large group.
>
> Kilby (1993: 201)

My aims in describing the research journey I undertook in conducting this two-phased inquiry of shareholders are to share with researchers the benefits of employing both qualitative and quantitative methods in this type of empirical inquiry, and to highlight a technique of indirect questioning which was very useful in uncovering the underlying values that influence shareholders' decisions. This technique enabled discovery of personal attitudes often unrealised by research participants, and it could be of considerable value in other 'values' or 'behavioural' studies, in applied business research, and also for advisers in the finance and investment professions[1].

My methodology is encapsulated by Kilby above: in-depth interviews with a small sample of participants followed by distribution of questionnaires to a large sample. This procedure was, I found, equally applicable to the discovery of the attributes shareholders expect company directors should have, and how they believe stakeholders should be treated. Accordingly, I conducted this inquiry in two phases. Phase One employed in-depth interviews with 20 individual shareholders to establish the contents of the three strands of my investigation – shareholders' own values, their desired qualities of directors and corporate responsibility from the standpoint of how stakeholders should be looked after. Phase Two tested what I drew from the small group of 20 shareholders on a stratified random sample of 438 shareholders.

The two phases are closely linked. Phase Two plays a confirmatory role by testing the contents of the three strands of shareholders' perceptions. At the same time, the qualitative approach complements the subsequent quantitative survey in that it provides a richness of data that cannot be achieved through use of a mail questionnaire solely. Furthermore, presenting participants' views in their own words helps to illuminate and support subsequent findings from the quantitative data (Patton, 1990).

1 Refer to discussion in Chapter 10 (page 156).

The first part of this Appendix describes the aim of Phase One, the 20 shareholders who participated in the in-depth interviews, my preparation of the interviewing guide, the interviewing process, and how I sorted and classified the data. Lastly, it discusses how I completed Phase One of my journey by cross-checking what I found from the interviewees with relevant literature. The second part covers my Phase Two quantitative approach. It starts with the aim of Phase Two and then details how I obtained a stratified random sample of 1 370 shareholders from which I obtained 438 participants, the designing and pilot-testing of the questionnaire, the mail-out procedures and results and analysis of the representativeness of the respondents. The journey ends with demographic descriptions of the 438 shareholders who responded to the questionnaire survey.

Phase One

Phase One addresses two important issues arising from my review of relevant literature (see Chapters 2 and 3). Firstly, to avoid the possibility of subjectivity in the selection of values items from Rokeach (1973), Schwartz (1992, 1994) and Kahle (1983), a set of values – those that shareholders deem as important for themselves and those that they believe to be ideal for company directors – needed to be drawn from the shareholders themselves. Secondly, so far nowhere in the literature, exemplified by the shareholder studies of Epstein (1992), Ryan (1994), Muller (2001) and Tippet (1998, 2000), has anyone adopted a qualitative approach that enabled compilation of a representative list of corporate responsibility issues from the shareholders' perspective. Therefore, Phase One, which involved in-depth interviews of 20 individual shareholders, played a vital role in developing the contents (items) of the three strands of this study.

Interviewees

As this inquiry focuses on individual shareholders who make their own share-buying decisions, it was important that the sample was of shareholders who have total control over what companies they invest in. A criterion was therefore set that only direct shareholders be approached. Direct shareholders are owners of shares in either New Zealand publicly-listed companies or international companies and the shares are registered in their own names. The principal reason why this inquiry was undertaken in New Zealand is that, being a small multi-culture country, logistically it offers easy access to a representative community of shareholders with diverse backgrounds and social profiles yet with a similar demographic profile to shareholders in other countries.

The interviewee shareholders represent a diverse range of occupations: banker, accountant, manager, consultants, architect, airline pilot, financial analyst, journalist, teacher, nurse and housewife. They were sourced from five different organisations – the New Zealand Shareholders' Association, the NZ branch of Australia CPA (accountants), the Chartered Secretaries NZ, the Royal Forest and

Bird Protection Society of NZ, and a Christian group consisting of Methodists and Anglicans. The main reason for sourcing participants by their membership of various organisations was to achieve a diversity of shareholders with varied social and cultural affiliations and interests, thus contributing to the reliability of the data collected.

The participants are three-quarters male and one-quarter female. The youngest is a 32-year-old female, and the oldest is a 77-year-old male. A vast majority (16 of the 20) the participants are aged over 45. Fourteen of the 20 shareholders have completed tertiary or post-tertiary education. A majority (12 of the 20) of the participants are involved in full-time or part-time jobs and some are self-employed.

The participants were also asked how they best describe their risk attitudes. The results show that they tend to be conservative in their attitudes towards risk. Three-quarters are willing to risk losing a little bit of their capital in order to gain a higher return, but the remaining quarter are not prepared to risk losing any capital at all.

The Interview Guide

Semi-structured interviews were used during this data gathering stage. The advantage of conducting in-depth interviews over other forms of data-gathering is that they allow for immediate exploration of issues arising from the interview, something not possible with a self-administered questionnaire.

The strength of semi-structured interviews is the 'open discovery' process where all but the core matters explored change from one interview to the next as different aspects of the topic are revealed (Hussey and Hussey, 1997). In exploring the core matters, an interview guide was used with the aim of making sure the same basic areas of the inquiry were explored with all the participants so that comparison between the responses of different participants to each question could be made.

Taking into consideration the three strands of my inquiry, the interview guide was structured into five sections: participants' descriptions of their share portfolio which gave insights into their investment behaviour; participants' attitudes toward different types of business (for example, alcohol manufacture, gambling) and corporate behaviour (for example, use of sweatshops and environmental issues); corporate responsibility issues participants perceived as important; the qualities participants expected of company directors; and lastly, the values of the participants.

The sequence of questions in the interview guide was designed to thoroughly explore the values of ordinary shareholders. People generally do not think about their own values (Guth and Tagiuri, 1965; Kilby, 1993), therefore by first asking participants to describe their share portfolio and then following this with questions on reasons why they buy shares in some companies and not in others, the participants unknowingly revealed and discussed the values they hold. This indirect way of discovering shareholders' values was then followed, in the final part of the interview, with direct questions about the values that participants think of as guiding principles in their lives. The indirect, then direct questioning of the participants proved to be very useful in capturing in-depth data. Each method complemented the other. The indirect questioning identified the values that the participants apply to share-buying decisions, and the direct questions then provided insight into other values that motivate and guide the shareholders' lives.

The draft interview guide, together with a brief questionnaire seeking demographic data of the participants, was reviewed by academics in the management and psychology disciplines. Some minor changes to the wordings of two questions on shareholders' values were made as a result of these reviews. Also, a question seeking shareholders' rankings of the six stakeholder groups (employees, customers, shareholders, suppliers, the community and the environment), was found to be best presented as a printed list so that participants could take their time in ranking them in order of importance. One advantage in using the ranking sheet in a face-to-face interview was that it allowed me to go through the list carefully with the participant to discover why they deemed a particular group to be more important than the others. I found the participants were more forthcoming in explaining their ranking when they had something tangible to consult.

Interviewing the Shareholders

The questions in the interview guide were tested on three individual shareholders to ensure the clarity of the questions. The outcome was that the questions were, indeed, comprehensive and clear and that the sequence of the questions was logical.

Interviews ranged in duration between 55 minutes and 2 hours 10 minutes. Half of the participants, at their own initiative, brought to the interviews notebooks and statements detailing their share transactions. This certainly helped participants to recall the reasons behind their decisions to invest in each of the companies in their portfolio. One participant also brought her laptop computer and at one stage used it to find material to illustrate some of the general (not financial) information she considered before making her investment decision.

It is worth noting that I found an indirect approach was extremely effective in discovering how shareholders apply their values to their buying decisions. I asked them to talk about the companies they invest in, those they did not invest in, and the reasons why. This was much more productive than asking them directly what their values are. I noticed during the first three interviews that the shareholders were more forthcoming in discussing the values they applied to their buying decisions when asked why they held shares in some companies yet not in others. Discussions about the composition of their share portfolios threw up examples where their share-buying decisions were clearly made in light of strongly-held values. Consequently, in interviews with the rest of the participants I spent much time asking the participants to describe their share portfolios and their reasons for making each of their choices.

The effect of such an indirect interview technique is that values can be inferred from the choices people make when asked to select among different courses of action (Mumford et al., 2002). Indirect questioning helps to lessen the effect of social desirability response bias because, as Oppenheim (1992) states, direct questions in face-to-face interviews are more likely to provoke respondents to put themselves in a better light than anonymous self-administered questionnaires. Another factor that reduced the effect of social desirability responses during interviews was that as a direct investor in Hong Kong, New Zealand and Australian share markets for over 20 years, my knowledge and discussion of the companies and their share price movements helped in putting participants at ease. They were happy to discuss their investment philosophies with me as a fellow investor, rather than as a researcher. Hence insights into the values that influence shareholders' selection of companies emerged naturally from the narratives.

The decision to initially tease out the values of shareholders by asking them to describe their share portfolios was a useful strategy. This became obvious in the final part of the interviews when participants showed that it is very difficult for them to answer direct soul-searching questions. To the question: 'What are the personal values that you consider as guiding principles in your life?', 11 of the 20 shareholders' initial responses were either a long pause or the remark: 'It's a tough question.' However, after giving the participants time to fully consider the question, their eventual responses proved to be very useful in two ways. The first was that the values nominated during this direct questioning affirmed some of the values that the participants unconsciously volunteered in the early part of the interview. The second was that new values emerged when the participants talked about their guiding principles in life. It became obvious that responses to the indirect and direct inquiries into shareholders' values complemented one another.

Analysing the Interview Notes

Notes taken at the interviews together with the tape recordings were transcribed, resulting in 324 pages of 1½-line spaced transcripts. Content analysis, a research technique for making replicable and valid inferences from data in light of their context (Krippendorf, 1980), was applied to the transcripts. The analysis was conducted in two stages. The first was an inductive analysis of the transcripts with the aim of identifying the items relating to each of the three strands of my inquiry. The second stage was categorising the participants' responses in the form of a matrix.

The development of the items within the three strands of my inquiry closely followed the process summarised in Patton (1990: 379):

> [O]rganizing the data, looking for patterns, checking emergent patterns against the data, cross-validating data sources and findings, and making linkages among the various parts of the data and the emergent dimensions of the analysis.

To aid in the initial organisation of the data, a list of topics relating to the questions in the interview guide was drawn up. Throughout the subsequent process of sorting the participants' responses into relevant topics, further topics emerging from the responses consistently were also noted. These new topics – among them shareholders' views on money and their deliberations about whether or not to invest in certain companies – were added to the list. In the form of either statements or phrases, participants' responses were sorted into relevant categories according to their themes.

The criteria applied to defining the categories follow the two basic decisions noted by Weber (1985): the categories need to be mutually exclusive, and specific as to each of the themes they represent. For example, I classified *a comfortable life* and *a prosperous life* into two separate categories instead of treating them as one as Rokeach (1973) did. In this inquiry a majority of the participants consider *a comfortable life* as one which is financially secure and content. However, one outlier was identified. One participant, the corporate accountant, differentiated herself from the other participants by wanting 'more than a comfortable life' and she ties her happiness to materialistic wealth instead of the feeling of contentedness that the other participants strive for. This participant's response was very different from the others. As Robson (2002) points out, an outlier that does not fit into the overall pattern of findings is important and should not be ignored. Further analysis and interpretation of what the corporate accountant meant by 'more than comfortable' resulted in the category *a prosperous life,* best described as affluent and wealthy.

As a result of the analysis, 137 values statements were identified and subsequently classified into 11 values items (refer to Table 4.1 in Chapter 4). The same procedures were applied to the 129 statements related to qualities of directors and the 285 statements on corporate responsibility issues under the various headings of employees, customers, shareholders, suppliers, the community and the environment. Subsequently, the 129 director statements were classified into ten qualities of directors[2] (see Table 5.1 in Chapter 5) and the 285 corporate responsibility statements were rendered into 30 of the total set of 31 corporate responsibility issues[3] (see Tables 6.1 to 6.6 in Chapter 6).

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2 The ten qualities of directors were reduced to nine after they were scrutinised by four non-interviewee shareholders as part of the cross-checking process (refer to the next section 'Finalising Phase One').

3 An extra item – report social and environmental performance – was added to the list of corporate responsibilities to meet the growing trend of corporations to adopt triple-bottom line reporting.

The second stage of analysis involved coding the participants' responses under their relevant classifications and then incorporating them into a two-dimensional matrix. Each column in the matrix represents an individual shareholder. The rows represent each response in accordance with the classification made earlier. Matrices essentially involve the crossing of two or more main dimensions or variables to show how they interact (Miles and Huberman, 1994). This matrix was useful in establishing links between participants' views. For example, is the participant who nominates *a world of beauty* as the most important motivational value also indicating their preference for companies which initiate positive environmental change? By tracking each participant's responses, any links between values and corresponding attitudes in different areas of corporate responsibility were highlighted and their narratives were further analysed. The presentation of the narratives of the shareholders together with the statistical findings from Phase Two provides an in-depth understanding of shareholders' values and their attitudes. This is the format I have adopted in the discussion of my findings on shareholders' values (see Chapter 4), qualities of directors (Chapter 5), shareholders' attitudes to corporate responsibility (Chapter 6) and impact of values (Chapter 8).

Finalising Phase One

The narratives of the shareholder participants provided me with a wealth of data that I subsequently sorted and classified into relevant items under the three strands – shareholders' values, qualities of directors and corporate responsibility issues (see Figure A.1). To complete Phase One, I took two further steps to check the representativeness and comprehensiveness of the list of items I developed.

In my first step, I adopted the process described in Patton (1990): comparing and cross-checking the consistency of information derived at different times and by different means within qualitative methods. The items were developed through inductive analysis. According to Patton, the patterns, themes and categories of analysis come from the data; they emerge out of the data rather than being imposed on them prior to data collection and analysis. It was therefore necessary to find out how they compared with independent sources. Moreover, as content analysis is considered valid to the extent its inferences are upheld in the face of independently obtained evidence (Krippendorf, 1980), the list of items I developed from the narratives of the shareholders was cross-checked against the literature I identified in Chapters 2 and 3. Rokeach (1973) and Schwartz (1994) were useful sources for checking the compatibility of the shareholders' values with the universal set of human values. The qualities that shareholders expect of their directors were compared with the instrumental values in Rokeach, personal virtues in Ryan (1994), and managers' values in Posner and Schmidt (1984). To these issues identified by shareholders as corporate responsibilities, *report social and environmental performance* was added and incorporated into the questionnaire survey in Phase Two, to reflect the growth in triple-bottom line reporting.

Shareholders' values

1. A comfortable life (financially secure, content)
2. A prosperous life (affluent, wealthy)
3. Family security (taking care of loved ones)
4. Contribution to society (through involvement)
5. An active life (healthy in mind and body)
6. A world of beauty (beauty in nature and arts)
7. A world at peace (free of war and conflict)
8. Honesty (truthfulness, integrity)
9. Fairness (respect for people)
10. Excellence (quality, best of one's ability)
11. Independence (self reliance, self sufficiency)

→

Qualities of directors

1. Competence (capable, effective)
2. Leadership
3. Commitment (hardworking, loyalty)
4. Innovation (visionary, a strategic thinker)
5. Courage (to question and to challenge)
6. Openness (truthful, honest)
7. Integrity (trustworthy)
8. Prudence (cautiousness)
9. Accountability (accept responsibility)
10. Intelligence (astute businesswise)*

↓

Corporate responsibility towards . . .

Employees

1. Provide equitable wages and rewards
2. Provide training and development
3. Ensure a healthy and safe workplace
4. Create a family-friendly work environment
5. Communicate company's plans
6. Respect employees' needs

Customers

1. Provide quality products and services
2. Ensure value for money
3. Truthful promotion and product disclosure
4. Respect customers' rights
5. Adapt to changing consumer tastes

Shareholders

1. Accurate and honest financial reporting
2. Keep shareholders informed: faults and all
3. Strive for financial stability of company
4. Maintain long-term growth in share price
5. Provide regular dividend income
6. Base directors' fees on performance
7. Base management rewards on performance
8. Report social and environmental performance**

Suppliers

1. Utilise local suppliers
2. Maintain long-term supplier relationships
3. Give clear purchasing requirements
4. Pay fair prices

The community

1. Participate in staff community-work programmes
2. Donations to charities
3. Sponsorships
4. Active support of local community

The environment

1. Minimise harm to the environment
2. Reduce, recycle and reuse
3. Comply with environmental law/regulations
4. Initiate positive environmental change

Note: * Deleted after cross-checking with non-interviewee shareholders.
** Not derived from the narratives. The issue is added to the list (refer to section on Corporate Responsibility Issues in Chapter 6).

Figure A.1 Items in the three strands of the inquiry

My second step was to engage the help of four shareholders who were not interview participants. They were each asked to scan all the items listed in Figure A.1 carefully and to comment on the clarity or otherwise of the items and whether all the items that they perceived as important were covered. Among these four shareholders were two academics – one current, the other retired. The other two shareholders were a retired manager and a company accountant. These four shareholders had a range of five to 50 years of direct share-buying experience.

One shareholder said the items were clear and well-covered. The other three variously made suggestions as to the nominated qualities of directors and corporate responsibility issues. In terms of the list of shareholders' values, all four shareholders agreed that it was comprehensive.

As a result of this step, one modification was made to the qualities of directors, *intelligence* (astute businesswise) was seen as very close to *competence* (capable, effective), and was therefore removed. However, the three other corporate responsibility issues suggested by the non-interviewee shareholders were not incorporated into the list. 'After-sales services' was already covered by *provide quality products and services*; 'encourage employees' initiative and creativity' is very similar to the item *create a family-friendly work environment*; and 'being a responsible corporate citizen' is such a broad concept relating to different areas of corporate responsibility that meaningful interpretation of it cannot be made. These three corporate responsibility issues did not meet the criteria that each category should be mutually exclusive and specific.

In conclusion, this exploration of the three strands of shareholders' perceptions undertaken in Phase One can be encapsulated by Miles and Huberman's (1994: 267) statement on triangulation: 'If you self-consciously set out to collect and double-check findings, using multiple sources and modes of evidence, the verification process will largely be built into data collection as you go.' The items that emerged from the inductive analysis in Phase One were first compared against known evidence drawn from related literature and then scrutinised by four experienced shareholders who were not interview participants. After completing the cross-checking processes, I began Phase Two of the journey.

Phase Two

As Kilby (1993) stated, the time-consumingness of in-depth interviews makes it impossible to cover a large sample of shareholders. Therefore the use of a self-administered questionnaire in Phase Two was most appropriate for testing the findings from Phase One. Survey instruments are commonly used in the studies of human values (Rokeach, 1973; Schwartz and Bardi, 2001), consumers' purchase preference (Allen et al., 2002; Madrigal and Kahle, 1994), values of managers (Agle et al., 1999; England, 1967 and 1975; Ryan, 1994), and attitudes of ordinary investors (Baysinger et al., 1985; Epstein, 1992; Tippet, 2000). Obviously, a questionnaire survey would be the most effective method of quantitatively measuring shareholders' perceptions.

Phase Two served two functions. Firstly, the questionnaire survey was used to check whether the items identified in Phase One represented within the three strands of this inquiry what shareholders consider as important. Secondly, questionnaires are efficient in that a large sample can be reached within a relatively short time, and they are instrumental in providing ‘a broad, generalizable set of findings presented succinctly and parsimoniously’ (Patton, 1990: 14). Phase Two played a vital role by revealing another dimension of the Phase One findings through the use of statistics. For example, the narrative from a participant in Phase One showed that his motivational value is *a world of beauty* and he prefers to invest in companies which are strong in environmental conservation. The use of a large sample of shareholders and the application of statistical analysis enabled me to test whether there were other such correlations between shareholders’ values and their attitudes to various corporate responsibility issues.

The mail questionnaire survey in Phase Two was conducted using a stratified random sample of 1 370 New Zealand individual shareholders; the sampling and questionnaire design, pilot testings, procedures and results of the mailout are described below. Statistical programme SPSS Version 11.5 for Windows was used to analyse the data. Phase Two finishes with a description of the demographics of the 438 respondents.

Sampling Design

The population of individual shareholders who have total control of what shares they want to invest in are direct shareholders in both publicly listed and unlisted companies. As it is logistically impossible to access shareholders in small unlisted companies, the share registers of companies listed on the New Zealand Stock Exchange therefore constitute the sampling frame from which the survey sample was drawn.

In order to have a diverse group of shareholders with varied interests in the types of business they invest in, seven large New Zealand public companies, representing different industries (retail, entertainment, fisheries, forestry, alcohol manufacturing, household appliance manufacturing and infrastructure), were each sent a letter seeking a list of 500 of their shareholders. As a result, three major companies – an infrastructure company (Company A), an alcohol manufacturer and distributor (Company B) and a large retailing business (Company C) – contributed a total of 1 500 shareholders. This sample size takes into account the fact that response rates of mail questionnaires are generally low[4] and that a response rate of 30 per cent is acceptable (Sekaran, 2003).

4 An examination of reported mail surveys of shareholders shows that there is a substantial variation between response rates, from around 10 per cent (Epstein, 1992, see Epstein et al., 1994) to 59.8 per cent (Baysinger et al, 1985). Sample sizes can range widely, from 750 (Ryan 1994) to about 3 000 individual investors (Epstein et al. 1994; Baysinger et al., 1985).

To avoid over- or under-representing any group of shareholders by the size of their shareholdings, stratified random sampling was applied to the sample selection. The strength of stratified sampling is that it overcomes a problem of random sampling by taking into account each identifiable strata of the population (Hussey and Hussey, 1997). A review of the annual reports of the three companies taking part in the study identified five groups in the strata: from 1 to 499 shares; 500 to 999; 1 000 to 4 999; 5 000 to 9 999; and those with more than 10 000 shares.

The three criteria applied to the selection process were: the shareholders should be drawn randomly from the company's share register; the shareholders should be persons residing in New Zealand; and, lastly, the number of shareholders drawn from each stratum (identified by the size of holdings) should correspond with the percentage they represent in the total number of shareholders shown in the company's latest annual report.

Though the three companies contributed a total of 1 500 shareholders for the mailout, the final number of shareholders to whom questionnaires were sent was 1 370. The reason was that it would have been inappropriate to include in the survey addressees who act for the estates of deceased shareholders. Also, custodian and nominee companies, public trustees and holding companies which would receive the questionnaire and then forward them to the clients they represent were also excluded from the mailout. Table A.1 shows the number and make up of the shareholders to whom the questionnaires were sent.

In all three companies, a large majority of individual shareholders hold fewer than 5 000 shares. This situation is common in publicly-listed companies.

Questionnaire Design

The questionnaire comprised three main sections, with the first seeking responses to qualities of directors. The second section centred on aspects of corporate responsibility and was divided into eight sub-sections relating to companies' dealings with employees, customers, shareholders, suppliers, the community and

Table A.1 Number of shareholders in each stratum

Size of holdings	Company A	Company B	Company C
1 – 499 shares	297	325	167*
500 – 999	42	60	
1 000 – 4 999	104	61	233
5 000 – 9 999	15	8	27
10 000 and over	8	2	21
Total	**466**	**456**	**448**

* The company provides only one stratum in the lower range: 1 to 999 shares.

the environment, ranking of the six stakeholder groups, and attitudes on types of businesses and corporate behaviour. The third section related to shareholders' values. Demographic information was sought at the end of the questionnaire.

The observations I made from interviewing the shareholders in Phase One had some bearing on the sequence of the questions in the questionnaire. As noted in Babbie (1990) and Brownell (1995), when setting the order of the questions in a self-administered questionnaire it is usually best to begin with easy, non-taxing and interesting questions. Recalling the enthusiastic responses and stories the interviewee shareholders told me when I asked them to describe the qualities they expect from company directors, my first question in the questionnaire dealt with this so as to arouse the interest of potential respondents.

When considering how shareholders' values and their attitudes should be measured, whether to use a rank-order scale or a rating scale becomes an important issue. The arguments from various researchers over which scale is superior to the other was discussed on pages 19–21, with the conclusion that the method used depends on the purpose of the inquiry. In considering the advantages of the rating scale which is of direct relevance to my inquiry – its non-ipsativity and that the absolute difference between values can be captured when the items are rated independently (Meglino and Ravlin, 1998) – I decided to adopt the rating method.

The questionnaire format used by Kahle and his colleagues on consumers' purchasing preferences (Kahle and Kennedy, 1989) had a fundamental influence on the instrument designed for this study. The procedure they adopted was to first ask the respondents to rate each of the value items, and then go back to the list and indicate the one value that is most important to them.

By asking respondents to identify the single most important value after rating all the values solves a commonly nominated problem with the rating method. Critics of the rating method say the use of rating rather than ranking is an easy but 'lazy' solution because it does not require respondents to discriminate between all values (Feather, 1973), and that the precision of the data is compromised (Alwin and Krosnick, 1985). Moreover, end-piling occurs in values studies with a tendency for results to be skewed towards the 'very important' end of the scale (Alwin and Krosnick, 1985; Munson and McIntyre, 1979). Though Munson and McIntyre observe that end-piling does not appear to be detrimental to the performance of the rating approach, the use of Kahle and Kennedy's (1989) question format forced respondents to nominate the value that is most important to them.

Another problem with the rating scale is that it is more sensitive to social desirability bias than ranking (Rokeach, 1973). Ravlin and Meglino (1987) observe that some slight influence of social desirability response bias is found for the Likert measure. Nevertheless, ranking can suffer similar effects: social desirability bias does influence value rankings (Beatty et al., 1985). In short, both measuring methods appear to be prone to social desirability bias.

Some researchers incorporate a 33-item Marlowe-Crowne Social Desirability Scale (M-C SDS) in their questionnaire to test for social desirability bias (for example, Beatty et al., 1985; Ravlin and Meglino, 1987; Schwartz et al., 1997). Both the M-C SDS (Crowne and Marlowe, 1960) and a short form 13-item M-C SDS (Reynolds, 1982) were reviewed at the questionnaire design stage, but two factors militated against incorporating either.

The main reason was that most of the statements used in the M-C SDS and the short-form M-C SDS are irrelevant to the context of this inquiry. Some obvious examples found in both M-C SDS (Crowne and Marlowe, 1960: 351) and the 13-item M-C SDS (Reynolds, 1982: 123) are: ‘It is sometimes hard for me to go on with my work if I am not encouraged’, ‘I sometimes feel resentful when I don’t get my way’ and ‘I sometimes try to get even rather than forgive and forget’. It seemed therefore highly inappropriate to include statements that do not really apply to shareholders in share-buying circumstances.

Another reason for bypassing the MC-SDS test was that social desirability response bias is generally low when the respondent is anonymous (Schwartz et al., 1997). Paulhus (1991) finds assuring respondents of anonymity is the most obvious strategy to reduce desirability responding. Given that the mail questionnaire was self-administered and potential participants were assured of anonymity of their responses, to incorporate a measurement on social desirability bias into the questionnaire seemed unnecessary. Further, the intrusiveness of the test and its irrelevance in parts to the thrust of inquiry might have jeopardised any trust and good-will that the respondents held towards this inquiry.

The structure of the questions follows very closely to that of Kahle and Kennedy (1989) but with some minor changes. Rather than using a nine-point rating scale, a seven-point scale which is commonly used in manager and organisational values studies (Posner and Schmidt, 1984; see also Liedtka, 1989) was adopted. Clark-Carter (1997: 94) recommends a five- or a seven-point scale because ‘fewer points on the scale will miss the range of attitudes, while more points will require an artificial level of precision, as people will often not be able to provide such a subtle response’. The seven-point scale was adequate in measuring the shareholders’ responses. It also had the advantage of shortening each respondent’s time in answering the questions.

I modified Kahle and Kennedy’s (1989) labelling at the lower end of the scale of ‘1’ as ‘not at all important’ to ‘not important’. The change was made because all the items identified in this study are important to shareholders in varying degrees; it seemed inappropriate to describe any of them as *not at all* important.

Two blank spaces were provided at the end of each main question so that respondents could add their comments if they thought of an important item or items not covered in the list.

The draft questionnaire was reviewed by academics in the management, psychology and statistics disciplines for clarity of the questions and suitability of the measuring scale before it was pre-tested.

Pilot Testings

The questionnaire was pre-tested twice over a period of 12 weeks. To ensure the diversity of the population was represented among those who pre-tested the questionnaire (Salant and Dillman, 1994), a total of 21 individual testers – shareholders who had never been involved in any stage of this inquiry – took part in the pilot testings. These shareholder testers came from diverse backgrounds (teacher, farmer, shopkeeper, accountant, manager, academics, nurse, school counsellor and small business operator) and their ages ranged from 22 to 75.

Both pre-tests were conducted face-to-face. The advantage of this is that signs of problems can be detected through watching people completing the form and improvements can then be discussed on the spot (Salant and Dillman, 1994). Also, the time taken for each individual to complete the questionnaire was recorded. The average time taken to complete the questionnaire (15 minutes) was indicated in the letters to the shareholders in the mailout.

Oppenheim's (1992: 49) guidelines were adopted in the testings. He says: 'Take nothing for granted. Pilot the question lay-out on the page, pilot the instructions given to the respondents, pilot the answer categories, pilot even the question-numbering system.' In the first testing of the questionnaire, a significant problem occurred in the layout adopted from Kahle and Kennedy (1989). Six of the ten testers completely missed answering the instruction 'Please circle the one item that is most important to you' after they had rated each item. Discussions with those testers resulted in changing the instruction into a question with the question number highlighted with bigger-sized and bold type. In the second testing, a revised questionnaire was tested on 11 shareholders and the results showed that the problem with some testers leaving questions unanswered had been overcome.

In each of the two testings, the shareholders were asked to comment on the clarity of the questions and the items listed for their rating. Their comments included: 'the questions were clear'; 'good that you give a description of each word under the qualities of directors so I know what you mean'; 'doing this questionnaire makes me think about things I haven't considered but I was actually doing most of the time'. This last comment was echoed by two other shareholders in the pilot testings and was also written on the survey form by a few shareholders who responded to the mailout. The two testings indicated that no further changes needed to be made to the contents of the questionnaire.

In terms of the rating measurement used in the questionnaire, two testers said they would prefer the ranking system because of the temptation to rate all items as very important. However, an inspection of the responses from the two testings showed that the shareholders did discriminate between ratings of the items. For example, while *a comfortable life* was rated close to the 'extremely important' end of the scale by all shareholders, *a prosperous life* was at the 'not important' end. Items such as *a world of beauty* and corporate responsibility towards community were normally distributed. Consequently no change to the rating scale was made.

The Mailout: Procedures and Results

Time and cost factors dictated that one mailout be made, and no incentive was offered to respondents. A total of 453 responses was received, 15 of which were not usable. Of the 1370 questionnaires sent, 16 were returned undelivered and 20 were returned with written notes from people declining to participate. The most common reasons cited for non-participation were: the shares were part of an inheritance so they did not buy the shares; ill-health and poor eye-sight because of old age; and grandparents buying shares for their grandchildren on the sole advice of their brokers or financial advisers. As a result, the number of valid questionnaires of those mailed was reduced to 1334. The overall usable response rate was 32.83 per cent. A breakdown of the source of shareholders responding to the questionnaire showed that the response rates of each of the three participating companies' shareholders were very close (see Table A.2).

Comparison of this result with the response rates of similar questionnaire survey studies on individual investors (10.7 per cent in Epstein et al. (1994)[5]; 25 per cent in Ryan (1994); 40 per cent in Tippet, 1998), and considering that only one mailout was made, shows that the response rate for this inquiry was reasonably good.

Analysing the Representativeness of Respondents

To ensure the accuracy of the data entered, each entry was subsequently cross-checked against the respective response in the questionnaire and any keystroke errors made were corrected.

Because the data was collected from shareholders of three companies, my first step was to find out whether it could – or should – be treated as if it were from a single group of shareholders. Consequently the six demographic items and a total of 57 other items comprising 11 shareholders' values, nine qualities of directors, 31 corporate responsibilities and six shareholders' attitudes on types of business

Table A2 Breakdown of the source of respondents

Company	Usable response	Net response rate
Company A	144	31.44%
Company B	142	32.57%
Company C	152	34.55%
TOTAL	**438**	**32.83%**

5 The Epstein (1992) article I referred to throughout this inquiry does not provide the response rate, but it can be extracted from Epstein et al. (1994) which reports on another aspect of the same survey study.

and corporate behaviour were tested to discover if there were any significant differences between the three companies' shareholders.

Table A.3 shows results of the Chi-square tests on the demographic data of the respondents from the three companies. In terms of gender, education, employment and number of companies invested in by the shareholders, there is no significant difference among the three groups of respondents. However, significant differences are found in the ages of the respondents ($p < .05$) and the size of their shareholdings ($p < .01$). The difference in the age ranges is noticeable mainly in the responses from Company C, with 17 who are under 35-years-old, as compared with seven in Company A and only five in Company B. A reason why Company C has a higher number of young shareholders may be due to this company's encouragement of their staff to buy shares in the company. In Company C's 2001 annual report, it states that 64 per cent of the New Zealand staff who work 20 hours or more a week had shares in the company. The other difference is that 80 of Company C's respondents hold larger parcels of shares (1 000–4 999) than the other two groups (44 in Company A and 27 in Company B). A contributing factor to the anomaly in the size of shareholdings may be because the cost of a Company C share is considerably lower than those of either Company A or Company B. Taking this factor into account, the value of shareholdings appears similar across the groups.

End-pilings are often noted in values studies with respondents tending to rate towards the important end of the scale. I anticipated that this phenomenon was likely to occur in the questions relating to corporate responsibility and qualities of directors. Therefore prior to undertaking any parametric tests on the respondents' ratings of the 11 shareholders' values, nine qualities of directors, 31 corporate responsibilities and six attitudes towards types of business and corporate behaviour, box-plots were used to assess the normality of the scores. The outcome was that only a minority (10 of a total of 57 items) satisfied the condition of normal distribution. Consequently, I felt it prudent to cross-validate the results of parametric tests with those from non-parametric tests.

One-way ANOVA and Scheffe tests were used to compare the rating scores of the three groups, and the results were then compared with those from the Kruskal-

Table A3 Chi-square tests on demographics of respondents of three companies

Demographics	X^2	*df*	*p*
Age	16.109	8	.041
Gender	1.610	2	.447
Education	9.477	10	.487
Employment	13.185	10	.214
Size of shareholdings	82.154	6	.000
No. of companies held	13.672	8	.091

Wallis test. Of the 57 items tested, four items are identified by ANOVA as having a significant difference between the three groups. However, only two of those four items are confirmed by the Kruskal-Wallis test (see Table A.4). In all, no significant difference was found in any of the scores relating to the importance of shareholders' values, qualities of directors, corporate responsibility towards the employees, customers, shareholders, the community and the environment.

The two items found to be of significant difference in both One-way ANOVA and Kruskal-Wallis tests showing $p < .01$ are *utilise local suppliers* and *manufacturing alcohol*. Company C has often been publicly criticised for importing cheap goods and not stocking New Zealand made goods. Therefore it is not surprising to find that Company C's shareholders are less concerned with utilising local suppliers ($M = 4.66$, $SD = 1.69$) than the shareholders in Company A ($M = 5.23$, $SD = 1.33$) and Company B ($M = 5.13$, $SD = 1.37$). Though investing in alcohol manufacturers is not of concern to any shareholders in the three companies, Company B shareholders find it of even less concern ($M = 2.16$, $SD = 1.73$) than the others (Company A: $M = 3.08$, $SD = 2.06$; Company C: $M = 2.90$, $SD = 2.16$). Again, this can be explained by the fact that Company B is a brewery and wine distributor.

A major outcome from the ANOVA and Kruskal-Wallis testings is that the three groups of shareholders do not differ in their rating scores on all the shareholders' values, qualities of directors, and corporate responsibility towards employees, customers, shareholders, the community and the environment. Of the four items (age, size of shareholding, utilise local suppliers and manufacturing alcohol) that show a significant difference, they are simply a confirmation of reality – the higher number of shareholdings in Company C is because the cost of its shares is comparatively lower than the other two companies; Company C shareholders are not affected by the adverse publicity given to their company for not utilising local suppliers; and Company B shareholders are even less concerned about investing in alcohol manufacturers than those of Companies A and C. The difference in the

Table A4 ANOVA and Kruskal-Wallis tests on intergroup differences

Items	F	X^2
Corporate responsibilities		
Long-term growth in share price	3.33*	5.77
Report social & environmental performance	3.31*	5.28
Utilise local suppliers	6.34**	8.62**
Attitudes towards…		
Manufacturing alcohol	8.42**	16.80**

df = 2
** p < .05. ** p < .01*

age range between Company C and the other two companies may be partly due to the higher number of young employee-shareholders.

The conclusion is that, given that the differences between the three groups of shareholders are relatively small, the data collected from the shareholders of the three companies should be treated as one sample group.

Demographics of Respondents

The characteristics of the respondents were identified by their age and gender, education level, employment situation, the size of their shareholdings, number of companies they invest in and their risk attitudes.

Approximately 35 per cent of the respondents were female and this was not unexpected. Tippet and Leung (2001) also found that the male-female ratio was about 2:1 in their study of Australian shareholders. Furthermore, according to the first Share Ownership Survey[6] conducted by the New Zealand Stock Exchange (2000), males are more likely than females to be direct shareowners[7].

The two youngest respondents were 23-year-old males and the oldest was a female aged 93. There was an under-representation of shareholders aged 35 and below (only 7 per cent). This trend is very similar to those found in most countries as direct share ownership is significantly higher amongst people aged over 35 years. The median age of the respondents was 60.

The largest single group (30.3 per cent) of the respondents were those who have completed secondary education. However, a majority (59.3 per cent) of the shareholders hold either tertiary or professional qualifications.

More than half of the respondents were either self-employed or held full- or part-time jobs. About 38 per cent of the shareholders were retirees and 35 per cent were aged over 65. The high percentage of retirees among the respondents was relatively similar to the 34 per cent of the Australian participants in the study by Tippet and Leung (2001).

As expected, the vast majority (87.8 per cent) of the respondents held fewer than 5000 shares. This is a phenomenon commonly found in publicly-listed companies. Two-thirds of the respondents held no more than ten companies in their share portfolios and the median number of companies held is seven. This is in fact very similar to shareholders found in other countries such as Canada, Switzerland and Australia.

6 A brief report of the second share ownership survey study was released on 15 July, 2005, but the information provided is not usable as comparison. According to the New Zealand Stock Exchange (2005): ‘It [the study] is primarily for marketing purposes so will not be released in full.’

7 This information is based on a print-out downloaded from the New Zealand Stock Exchange in 2002. The information is no longer available on the New Zealand Stock Exchange website.

Most of the respondents were conservative in their attitudes towards risk. Only 1.8 per cent of shareholders indicated that they were willing to risk most of their capital in pursuit of the highest and greatest return, 40.3 per cent were not prepared to risk losing any of their capital, and the majority (57.9 per cent) demonstrated typical investor behaviour: willing to lose a little of their capital in order to gain a higher than average return.

Conclusion

My strategy to collect data by adopting both qualitative and quantitative approaches was a successful one. In Phase One, from the narratives of the 20 interviewee shareholders drawn from five different organisations, I identified the contents (items) for the three strands of my inquiry – shareholders' values, qualities of directors and corporate responsibility issues (refer to Figure A.1). The items were then cross-checked against relevant literature and also with four non-interviewee shareholders. In Phase Two, 438 shareholders responded to my questionnaire survey and their responses were statistically analysed. The two phases supplied ample data from which to draw answers to my main research question:

> What is the interrelationship between individual shareholders' values and their perceptions of corporate responsibility when making share-buying decisions?

The employment of a qualitative approach through in-depth interviews, followed by a questionnaire survey has been most fruitful in eliciting the data required for analysis. In particular, the adoption of an indirect questioning approach in Phase One was very useful in discovering the underlying values that influence shareholders' decisions. When I asked each shareholder to describe their share portfolio then discussed with them the companies they did and did not invest in, the values underlying their decisions came through clearly. This procedure was most useful and contributed to the reliability of the data because the shareholders described what they had actually done rather than what they intended to do.

The different methodologies used in the two phases of the study were most appropriate and have complemented one another. The narratives of the shareholders brought out sentiments and emotions that could not be represented by statistical data. At the same time, the statistical data play both confirmatory and discovery roles that highlight correlations between shareholders' values and their corporate responsibility attitudes that are not readily discernible from the comments of the interview participants. The procedures detailed in my research journey will be of use to researchers wishing to employ both qualitative and quantitative methods in their empirical investigations.

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