

MANAGERIAL DECISIONS, CONTROL INFLUENCES AND CORPORATE FINANCE: SURVEY EVIDENCE

Abstract

We surveyed senior (C-level) executives in a variety of privately-owned and publicly-traded organizations to examine their corporate goals, the factors that affect the ability of their managers to make decisions to achieve these goals, the control influences on managerial decisions exerted by various stakeholders, the factors that affect firms' capital-raising, M&A and dividend policy decisions, and how firms make their capital structure decisions. The main findings are as follows. While managers seek to maximize shareholder value, achieving long-term growth and stability for all stakeholders and increasing market share growth are also important, even for public firms. A key impediment perceived by managers in the attainment of their goals is lack of endorsement of their decisions by key stakeholders, caused by fundamental disagreement. Managers thus attempt to make decisions that they believe their key employees, boards of directors and major investors will endorse. The choice of which security to issue to raise external capital is driven most significantly by the firm's overall corporate strategy and whether the chosen security will facilitate management's flexibility (increase decision endorsement) to execute that strategy. Agency and asymmetric information matter in some corporate decisions, but agency costs have no impact on financial policy. Tests of specific hypotheses reveal that firms that value managerial decision-making autonomy (which is adversely affected by fundamental disagreement) more choose lower dividend-payout ratios and lower leverage ratios, whereas firms that face larger asymmetric information have lower leverage ratios.

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1. INTRODUCTION

Survey research on important corporate finance issues has yielded valuable insights, especially when the goal is to understand the *intent* of managerial decisions and the factors that *affect* the decisions that determine corporate financial policy. The most influential survey research in corporate finance is Lintner's (1956) paper, which told us that managers seek to smooth dividends relative to earnings. Since then, other survey-based papers have provided additional insights. Graham and Harvey (2001) highlighted *how* managers make capital budgeting and financial policy decisions, and Graham (2000) estimated that the tax benefit of debt perceived by managers is as low as 9.7%. Graham, Harvey and Rajgopal (2005) provided survey evidence on the factors that drive reported earnings and disclosure decisions. These insights would have been very difficult to extract using the standard empirical approaches with available (non-survey) databases.

The main goal of this paper is to examine recently-gathered survey evidence on how senior executives make decisions that affect their firms' financial policies. Specifically, we have three objectives: (i) to understand what goals managers pursue; (ii) to understand the constraints managers perceive in making decisions to achieve these goals; and (iii) to examine the implications of these decision-making constraints for corporate financial policy choices managers make. Throughout, when we refer to decision-making, the reference is to decisions by managers within firms, and when we refer to endorsement of these decisions, the reference is to endorsement by key stakeholders like boards of directors, shareholders, analysts, and so on.

Our approach recognizes that managers' goals may differ from those we postulate in our theories. Moreover, managerial decision-making to achieve these goals is hardly unfettered. In addition to explicit corporate governance restrictions, managers may perceive a variety of constraints generated by the control influences of various stakeholders (e.g. Aghion and Bolton (1992), and Aghion and Tirole (1997)). Jensen and Meckling (1976) aptly recognized that the organization is a nexus of contracts. The research done in the past few years on the managerial benefits of control—whether these control benefits are exogenous as in Aghion and Bolton (1992) or endogenous as in Van den Steen (2005, forthcoming)—suggests that *organizational decision-making is a nexus of control influences*. These control influences will affect the ability of managers to make decisions they believe will achieve their

goals. That is, those who can influence the manager may disagree with the manager's proposed decisions and consequently alter them in some circumstances. This disagreement can stem from agency problems (Jensen and Meckling (1976)), asymmetric information (Myers and Majluf (1984)) or differences in beliefs (e.g. Abel and Mailath (1994), Allen and Gale (1999), and Boot, Gopalan and Thakor (2006, 2008)). We seek to understand managerial perceptions of the sources of these control influences and how they affect their decisions. We believe that a deeper understanding of this can help us to harvest richer insights into corporate financial policy choices.

In pursuit of these three objectives, our survey was designed to address the following questions:

Goals of Managers

- ◆ What are the goals of managerial decision-making?

Factors Affecting Managerial Ability to Achieve Goals

- ◆ What factors affect the manager's ability (autonomy) to make decisions that achieve these goals?
- ◆ Whose endorsement of managerial decisions is critical in ensuring that managers are indeed able to make decisions that achieve their goals?
- ◆ When managerial decisions are not endorsed, which factors are the most important contributors to the lack of endorsement?
- ◆ What do managers do to facilitate endorsement of their decisions by key stakeholders?

Implications of Constraints on Managerial Decisions for Corporate Financial Policy

- ◆ Which factors are most important in enabling firms to raise capital?
- ◆ Which factors are most important for firms in acquisitions?
- ◆ Which factors affect dividend policy the most?
- ◆ Do firms have target debt-equity ratios? Is it in market value or book value terms? Is it adjusted when the firm's stock price changes?

To address these questions, we designed a survey questionnaire that was sent out to senior executives (CEO, CFO, Board Member, Chairman, Controller, Director, Founder, General Manager, Managing Director, Owner, Partner, President, Senior Vice President and Vice President) at 2,081 companies. The survey was sent out June 3, 2008 and respondents were asked to respond by July 3, 2008. We received 528 responses. After deleting incompletely-filled out surveys, government employees and so on, as well as consolidating multiple respondents from the same organization, we ended up with 321 distinct firms whose executives responded, for a response rate of 15.4%. A fairly broad cross-section of stakeholders was chosen for the survey because a key goal of the research is to

determine the importance of control influences exerted by these stakeholders on managerial decision-making and corporate financial policies.

Broadly speaking, our findings can be summarized as follows. On the first question, ensuring reliable growth and stability for all stakeholders is the goal most often cited as the most important. Maximizing (near-term) shareholder value is important too, but is at best second behind reliable growth and stability. Increasing market share is the third-most important goal. Thus, it appears that maximizing total organizational value is a higher priority goal for managers than focusing more narrowly on maximizing shareholder value. When the goal of increasing market share is juxtaposed with the growth and stability goal, it appears that managers consider stable organizational growth a key goal, with the achievement of such growth viewed as a way to *operationalize* the value-maximization ideal, and increase in market share viewed as an important *metric* to measure this growth.

We turn now to the next four questions, which refer to the factors that affect management's ability to achieve their goals. Our second main finding is that the most important factors facilitating managerial ability to make decisions that achieve their goals are: (i) the firm's market share and other aspects of its competitive position; (ii) the extent to which Board of Directors and employees share management's vision and strategy; and (iii) the firm's past financial performance.

In addition to these factors, managers may also be subject to control influences exerted by various stakeholders, as discussed previously. Our third question gets at this issue, and our third main finding is that the most important endorsement managers want for their decisions is that of the Board of Directors, followed by major shareholders/investors, and then key employees. These stakeholders are also important in making managers reverse their decisions due to lack of endorsement.

Fourth, when a managerial decision was not endorsed in the past, the factor most responsible for the lack of endorsement was that management and key stakeholders interpreted an available set of information differently, followed by managers possessing superior information that others did not have, with a divergence of objectives between managers and other stakeholders coming in third place.

Fifth, managers recognize that they could take actions to improve the odds of having their decisions endorsed by key stakeholders. The three most important actions they listed were: (i) demonstrating consistent financial performance; (ii) developing the confidence of investors, directors and other constituencies; and (iii) communicating the company strategy clearly.

Our findings with respect to this second group of questions reveal a number of interesting insights:

- Managers care about potential disagreement over major decisions with key stakeholders

and the consequent need for alignment, without which decisions may have to be reversed. The Board of Directors, major shareholders/investors and key employees represent three groups that exert control influences on the manager and whose decision endorsement is viewed as being important in ensuring that major managerial decisions do not have to be reversed.

- Factors that facilitate decision endorsement by various groups, minimize the likelihood of decision reversal and thereby enhance decisions that achieve managerial goals are: strong market share and competitive position; consistent financial performance; and investors, directors and key employees sharing management's vision and strategy.
- When the various groups that exert control influences do *not* share management's vision and strategy, it appears that *fundamental disagreement* stemming from interpreting an available set of information differently as in Boot, Gopalan and Thakor (2006, 2008) and Van den Steen (2010), *asymmetric information* due to the manager possessing superior information as in Myers and Majluf (1984), and *agency problems* due to a divergence of objectives as in Jensen and Meckling (1976) all play a role.

The fact that managers care about the endorsement of key employees speaks to the issue of *internal* corporate governance, an understudied area.¹ Moreover, the importance managers attach to investors, directors and key employees sharing management's vision and corporate strategy surfaces an aspect of potential disagreement that has not been studied much.

We turn next to the third group of questions dealing with key financial decisions. Our sixth finding is that the most important factor affecting the ability of firms to raise capital and the choice of security is the firm's corporate strategy and whether the security issued will facilitate or impede management's ability/freedom/flexibility to execute the strategy. The second-most important factor is the firm's past financial performance, and the third-most important factor is how the security issued will affect the firm's capital structural relative to its long-term target.

Seventh, the acquirer's estimate of the profitability of the acquisition is the most important factor in determining whether the acquisition occurs. Product market synergies and competitive reasons are the second- and third-most important factors.

Eighth, for the overall sample, future growth opportunities represent the most important determinant of dividend policy. But for public firms, the two most important factors are the firm's past

¹ See Acharya, Myers and Rajan (forthcoming) for a model of internal governance. Goel and Thakor (2008) examine a somewhat different model of internal governance in the context of leadership succession.

dividends, and the anticipated reactions of analysts, investors and others to the chosen dividend policy. Future growth opportunities comes in as the third-most important. For private firms, future growth opportunities are at the top of the list.

Finally, the majority of firms indicated that they have a fixed target debt-equity ratio that has been formalized for decisions. The majority of firms set their target debt-equity ratios in market value terms, but do *not* adjust their capital structures in response to stock price changes.

There are some interesting observations that emerge from these findings. The observation that a firm's choice of security to issue is driven by how security issuance will affect the firm's flexibility to execute its strategy is one that should be studied more carefully. The dependence of the firm's dividend policy on the *anticipated* reactions of analysts, investors and others to the chosen dividend policy is also an aspect of dividend policy worthy of further scrutiny. Finally, the finding that the majority of firms set their target debt-equity ratios in market value terms is consonant with capital structure theories, but it is somewhat perplexing in light of this that they do *not* adjust their capital structures to stock price changes, although this latter finding is in line with Welch's (2004) empirical evidence.

These are broad conclusions for the overall sample. The analysis slices the sample by public and private firms and also by small and large public firms. The conclusions vary quite a bit across these subsamples.

We also use the answers provided by the respondents to test a six specific hypotheses. The first three hypotheses have to do with capital structure. The first hypothesis is that firms that value decision-making autonomy more have lower leverage ratios (Dittmar and Thakor (2007)). The second hypothesis is related to the effect of asymmetric information on capital structure. Here the prediction provided by the theories depends on whether debt is viewed as a signal of value or it is equity that signals private information about value. The debt signaling model of Ross (1977) implies that leverage ratios will be higher among firms that are observationally identical but are characterized by larger asymmetric information problems in the sense of greater *a priori* unobservable heterogeneity.² However, the "inside equity" signaling model of Leland and Pyle (1977), and more recently the bank-capital framework of Morrison and White (2005), predict a greater reliance on equity—and hence lower leverage ratios in the cross-section—among firms characterized by greater information asymmetry. The

² In Ross (1977), debt acts as a signal of value. The greater the information asymmetry—measured as a larger difference between the true value of the observationally-identical good and bad firms in say a two-type model—the bigger will be the debt level chosen by the good firm to separate itself. Hence, the average leverage ratio will be higher in such a sample than in a sample in which the average true value across good and bad firms is the same but the difference between the true values of the good and bad firms is smaller. This is the logic behind the hypotheses being discussed here.

third hypothesis is that firms that have bigger agency problems have higher leverage ratios (Hart and Moore (1995)). We find support for the first two hypotheses, but *not* for the third hypothesis. Specifically, firms that value decision-making autonomy more have lower leverage ratios, and firms with larger asymmetric information are financed with more equity capital (consistent with Leland and Pyle (1977) and Morrison and White (2005)). However, we do not *directly* test the predictions of signaling models, so our evidence should be viewed as being consistent with, but not a confirmation of, signaling.

The remaining hypotheses are about dividend policy. The fourth hypothesis is that firms that value decision-making autonomy more have lower dividend payout ratios (Thakor (2010)). The fifth hypothesis is that firms that face larger asymmetric information problems have higher dividend payout ratios (e.g. Bhattacharya (1979)). And the sixth hypothesis is that firms that face bigger agency problems have higher dividend payout ratios (e.g. Fluck (1998) and Myers (2000)). We find strong support for the fourth hypothesis but *not* for the fifth and sixth hypotheses.

Since many results have been discussed, it is useful to summarize the key findings. This summary is provided in *Table 1*. In a nutshell, the key takeaways from this table are:

- Managers seek to maximize reliable growth (measured by growth in market share), stability and shareholder value in their firms.
- In terms of their ability to achieve these goals, a major impediment that managers perceive is lack of endorsement of their decisions by key stakeholders.
- Tests of specific hypotheses related to financial policy reveal the importance of fundamental disagreement (which adversely affects managerial decision-making autonomy) and asymmetric information:
 - Firms that value managerial decision-making autonomy more have lower dividend payout and leverage ratios.
 - Firms that face greater asymmetric information have lower leverage ratios. Asymmetric information does not affect dividend payout ratios.
 - Agency problems appear to have no effect on either dividend policy or capital structure.

Our results provide strong support for disagreement as a factor in both capital structure and dividend policy, some support for asymmetric information, and no support for agency as determinants of financial policy. Thus, the survey sheds new light on the determinants of financial policy.

Our findings complement those of the earlier survey papers of Graham and Harvey (2001), and Brav, Graham, Harvey and Michaely (2005). For instance, Brav, Graham, Harvey and Michaely (2005)

conclude that their evidence provides little support for agency, signaling and clientele effects in firms' dividend policies. We also find rather limited evidence that factors like agency problems and asymmetric information matter in the financial policy choices of firms. However, control influences exerted by various groups, including key employees, do seem to matter in various managerial decisions, including their financial policy choices.

The rest of the paper is organized as follows. Section 2 discusses the survey design, the sampling methodology and the summary statistics. Section 3 focuses on the evidence related to goals, decision endorsement and what managers do to ensure they have endorsement from key stakeholders. Section 4 turns to the factors that firms consider to be most important in enabling firms to raise capital and in their M&A decisions. Section 5 is devoted to dividend policy and capital structure. Section 6 discusses the factors that affect managerial decision-making autonomy. Section 7 discusses the empirical tests of specific hypotheses. Section 8 concludes. The survey that was sent out is in the Appendix.

Table 1: SUMMARY OF FINDINGS

GOALS	<ul style="list-style-type: none"> • Maximization of reliable growth (measured by growth in market share) and stability. • Increasing shareholder value
FACTORS AFFECTING ABILITY TO ACHIEVE GOALS AND WHAT CAN BE DONE TO FACILITATE GOAL ACHIEVEMENT	<p><i>Factors:</i></p> <ul style="list-style-type: none"> • Current competitive position (as measured by market share) • Extent of endorsement of managerial decisions by key stakeholders (the board, key shareholders/investors, and employees) <p><i>What Managers Can Do:</i></p> <ul style="list-style-type: none"> • Lack of endorsement of managerial decisions is primarily caused by fundamental disagreement between the manager and key stakeholders, and this disagreement can be reduced by greater consistency in financial performance and clearer communication of strategy.
FINANCIAL POLICY	
CAPITAL RAISING	<p>Choice of which security to issue is driven:</p> <p><i>Primarily:</i></p> <ul style="list-style-type: none"> - by corporate strategy; and - whether security will facilitate or impede ability to execute corporate strategy. <p><i>Secondarily:</i></p> <ul style="list-style-type: none"> - by past financial performance (which affects decision endorsement); - by long-term capital structure.

ACQUISITIONS	<p>The decision to acquire another firm is driven primarily by:</p> <ul style="list-style-type: none"> • the profitability of the acquisitions; • product-market synergies resulting from the acquisition; • competitive (market-share) reasons; and • cultural compatibility of acquirer and target
DIVIDEND POLICY	<p><i>The key Determinants of Dividend Policy:</i></p> <ul style="list-style-type: none"> • <i>For Overall Sample:</i> <ul style="list-style-type: none"> – growth opportunities • <i>For Public Firms:</i> <ul style="list-style-type: none"> – past dividend policy – anticipated reaction of analysts, investors and others to dividend policy <p><i>Empirical Tests of Hypotheses About Factors Explaining Cross-Sectional Variations in Dividend Policy Reveal:</i></p> <ul style="list-style-type: none"> • Firms that value managerial decision-making autonomy more have lower dividend payout ratios. • Asymmetric information problems have no impact on dividend payout ratios. • Agency costs have no apparent impact on dividend payout ratios.
CAPITAL STRUCTURE	<p><i>How Firms Manage Capital Structure:</i></p> <ul style="list-style-type: none"> • Most firms have a fixed target debt-equity ratio. • Public firms set the target in market-value terms, but firms do not adjust their capital structures in response to stock price changes. <p><i>Empirical Tests of Hypotheses About Factors Explaining Cross-Sectional Variations in Capital Structure Reveal:</i></p> <ul style="list-style-type: none"> • Firms that value managerial decision-making autonomy more have lower leverage ratios. • Firms that face larger asymmetric information have lower leverage ratios • Agency costs have no apparent impact on leverage.

2. METHODOLOGY

This section discusses the design of the survey, the delivery and response, and the summary statistics.

2.1 Design

Our survey focused on four issues: the goals managers have, the importance managers attach to endorsement by key stakeholders in terms of their ability to achieve their goals and the factors that

affect this endorsement; the actions managers take to ensure that they have the endorsement of key stakeholders; and the factors (including decision endorsement) that affect firms' financial policies—raising external financing, dividend policy and capital structure.

We developed the survey questionnaire to address these four issues. We sought the advice of academics as well as corporate executives in the design. We also beta tested the survey by administering the survey to a small group of executives to see if we could detect design flaws. We then sent the final questionnaire out to 3,400 senior (C-level) executives in various organizations. We received 528 responses. There were 89 respondents who answered no questions and 42 who answered only one question. These were eliminated. We also eliminated responses from those who were executives in subsidiaries of corporations, worked at universities or government agencies, or were self-employed. Multiple responses from the same company were consolidated by averaging across responses from the same company, transforming 83 individuals into 28 consolidated respondents. The final sample size was 321 respondents, representing 321 distinct firms.

2.2 Delivery and Response

The survey was sent out electronically with a link to the survey form that could be filled out online and also a PDF file in case the respondent wanted to print out a hard copy. For those who used the hard copy version, we gave them the choice of either mailing us the completed survey or faxing it to us. We offered respondents a free copy of an article summarizing the results for responding to our survey request.

We used an undergraduate student to help with the sending out of surveys. We decided to eschew anonymity in the processing of the survey responses because we thought it would be useful to know the identity of the respondent. This information would allow us to split the sample based on firm-specific characteristics—public versus private, small versus large, etc.—and also consolidate multiple responses from the same company. We assured respondents that there would be strict confidentiality and their names or the names of their companies would not be revealed; survey results would only be reported at an aggregate level without revealing individual or company identities.

2.3 Summary Statistics

In *Table 2*, we provide data on the summary statistics. As is evident, the distribution was pretty uniform across small (<\$10 million in sales), medium (\$10 million-\$1 billion in sales) and large (> \$1 billion in sales) firms. There are 110 small companies, 108 medium companies and 103 large companies. There are 101 public companies and 220 private companies in the sample. Defining a large public company as one with over \$5 billion in sales and a small public company as one with less than \$5 billion

in sales, we had 57 large and 44 small public companies in the sample.

Forty-nine percent of the firms in the sample seriously considered raising capital (common stock or bonds) at some point. Among private firms, this number was 35% and among public firms it was 80%. This suggests that raising capital is a possibly important factor in the decision to be public, or at the very least that public firms perceive greater access to external financing. Surprisingly, there is no appreciable difference between large and small public firms in terms of serious consideration given to raising external capital.

The vast majority of the firms in the sample had seriously considered acquiring another firm. The figures were 73% for the overall sample, 62% for private firms and 94% for public firms. So being public does seem to matter when it comes to thinking about acquisitions as a growth strategy. Large and small public firms are quite similar in terms of the percentages that had seriously considered acquisitions.

Table 2: SUMMARY STATISTICS

Panel A	
	Number of Firms in the Sample
Number of Companies	
Whole Sample	321
Private Companies	220
Public Companies	101
Large Public Companies (> \$5 billion in annual sales)	57
Small Public Companies (< \$5 billion in annual sales)	44
Annual Sales	
< \$10 million	110
\$10 million - \$1 billion	108
> \$1 billion	103
Number of Employees	
<100	134
100 – 10,000	112
> 10,000	75

Panel B	
Firm Attribute	Percentage of Firms in the Sample with that Attribute
Companies that Seriously Considered Raising Capital	
Whole Sample	49%
Private Companies	35%
Public Companies	80%
Large Public Companies	80%
Small Public Companies	79%
Firms that Seriously Considered Acquiring Another Firm	
Whole Sample	72%
Private Firms	62%
Public Firms	94%
Large Public Firms	94%
Small Public Firms	95%

Both the response rate and the number of responses are comparable to those in Graham and Harvey (2001). Like their sample, our sample is also diverse, even though our data are related to Washington University alumni. Our sample includes firms in the following sectors: services (31%), manufacturing (24%), finance, insurance and real estate (24%), retail and wholesale (11%), mining and construction (5%), agriculture, forestry and fishing (2%), transportation (1%), and other (2%). Thus, there is a sufficient diversity of industries represented by the firms in our sample.

3. EVIDENCE ON GOALS AND DECISION ENDORSEMENT

In this section, we provide evidence on what the respondents viewed as the goals of their organizations, the factors that affected managerial ability to make decisions to achieve these goals, the role decision endorsement by key stakeholders plays in how they approach corporate decisions, and the actions they take to enhance the likelihood of getting their decisions endorsed by key stakeholders.

3.1 Goals

In the survey questionnaire, respondents were given seven goals and asked to choose the top five for their organizations, ranking these from 1 to 5, where 1 is the most important goal and 5 is the fifth most important goal (Question 12). The seven goals were:

- a) Maximizing near-term shareholder value.
- b) Ensuring reliable growth and stability for all stakeholders.
- c) Maintaining/improving credit rating.
- d) Maintaining/improving the company's brand image.
- e) Be recognized as a highly desirable place to work.

- f) Increasing market share.
- g) Preserving an optimal degree of decision-making flexibility/freedom/autonomy without being restricted by investors or creditors.

In addition, respondents were given the choice of stipulating a goal not listed above.

Figure 1 provides data on the percentage of respondents who identified a goal as being in the top five. The most important goal is “ensuring reliable growth and stability for all stakeholders,” followed by “maintaining/improving the company’s brand image” and “increasing market share.” Surprisingly, shareholder value maximization is no better than fourth. However, when we focus on the goal that finished either first or second among all respondents, as we do in Table 3, “ensuring reliable growth and stability for all stakeholders” comes out at the top (69%) and “maximizing near-term shareholder value” is second (39%). This table also provides information about the percentage of respondents in private firms who identified a goal as the most important or second-most important among their top five goals. Additionally, it provides the same information for public firms. In both cases, the rankings are similar to those for the overall sample. “Ensuring reliable growth and stability” gets 66% of the votes as the top goal for private firms and 75% of the votes as the top goal for public firms. Maximizing shareholder value is second at 37% for private firms and 45% for public firms. Although we don’t report the results, they are similar for large and small public firms.

Table 3: A COMPARISON OF THE GOALS THAT WERE CONSIDERED THE MOST IMPORTANT OR THE SECOND-MOST IMPORTANT BY FIRMS

Goal and Rank for the Whole Sample	Percentage of Respondents Identifying the Goal as Most Important or Second-Most Important Among their Top Five Goals		
	Whole Sample	Private Firms	Public Firms
(1) Ensuring reliable growth and stability for all stakeholders	69%	66%	75%
(2) Maximizing near-term shareholder value	39%	37%	45%
(3) Increasing market share	31%	---	32%
(4) Maintaining/improving the company’s brand image	24%	23%	27%
(5) Preserving an optimal degree of decision-making a flexibility/freedom/autonomy without being restricted by investors or creditors	14%	19%	---
(6) Being recognized as a highly desirable place to work	---	8%	10%

The fact that shareholder value maximization is a key goal for private and public firms alike is consistent with finance theory and not surprising. The fact that private as well as public firms consider

growth and stability for all stakeholders as their top goal may seem surprising at first blush, but as we pointed out earlier, respondents may have interpreted shareholder value maximization as attending to a short-term goal and ensuring long-term growth and stability as attending to a long-term goal. A bit more surprising is the prominence given to market share. When taken together with the growth and stability goal, it suggests that stable growth is the way managers seem to be *operationalizing* the goal of shareholder value maximization, and increase in market share may be how growth is *measured*.

3.2 Factors that Determine the Firm's Ability to Cope with Environmental Changes and Make Decisions to Achieve Goals

In Question 13 on the survey, respondents were asked to identify the factors that determine the firm's ability to cope with or take advantage of unexpected changes in the economic environment and to make decisions that help them achieve their goals. They were asked to choose their top five factors and rank them. The choices given to them were as follows:

- a) Level of debt relative to equity in existing capital structure.
- b) Past financial performance (operating performance and/or net profits).
- c) Market share and other aspects of competitive position.
- d) Having large institutional investors as shareholders.
- e) Ownership concentration.
- f) Cash accumulated within the firm.
- g) Stock price high over the past few months.
- h) The Board shares management's vision and strategy.
- i) Major investors share management's vision and strategy.
- j) Key employees share management's vision and strategy.

In addition, they were asked to list any additional factor that was not listed above.

Figure 2 shows the frequencies with which the respondents ranked the various factors among the top five. The top factor affecting managerial decision-making ability was market share and other aspects of the firm's competitive position; it was identified in the top five factors 81% of the time. Second was that key employees share management's vision and strategy—it appeared in the top five factors 80% of the time. Past financial performance was third at 72%, the debt-equity ratio was fourth at 61%, cash accumulated within the firm was fifth at 60%, and coming in sixth at 54% was that the Board of Directors shares management's vision and strategy. These patterns must be interpreted with care, however, since the categories are unlikely to be mutually exclusive.

Table 4 shows the frequencies with which different factors were ranked either number one or

number two in terms of importance for the overall sample as well as for private and public firms, respectively.

Table 4: A COMPARISON OF THE FACTORS CONSIDERED THE MOST IMPORTANT OR THE SECOND-MOST IMPORTANT IN DETERMINING THE FIRM'S ABILITY TO COPE WITH UNEXPECTED ENVIRONMENTAL CHANGES AND ACHIEVE ITS GOAL

Factor and Rank for Whole Sample	Percentage of Respondents Identifying Factor as Most Important or Second-Most Important Among their Top Five Factors		
	Whole Sample	Private Firms	Public Firms
(1) Market share and other aspects of the firm's competitive position	35%	34%	38%
(2) Key employees share management's vision and strategy	34%	30%	44%
(3) Past financial performance (operating performance and/or net profits)	30%	30%	31%
(4) The Board shares management's vision and strategy	29%	23%	42%
(5) Cash accumulated within the firm	25%	28%	---
(6) Level of debt relative to equity in existing capital structure	---	---	16%

The factors summarized above are interesting. The fact that market share and other aspects of the firm's competitive position is ranked so highly indicates that managers view their competitive position as being of paramount importance in determining their ability to make decisions that help them achieve their goals. The remaining factors are all related in one way or the other to alignment between the manager and various stakeholder groups and managerial decision-making autonomy, as defined by Boot, Gopalan and Thakor (2006, 2008). The factors ranked number two and number four refer to alignment between the manager and key employees and between management and the Board of Directors. Agents who agree with each other are always aligned, so alignment is an issue only when there is a possibility of disagreement between the manager and key subordinates or between the manager and the Board of Directors. If the level of disagreement is sufficiently high, it could impede the manager's ability to make decisions that he believes are optimal for achieving the goals of the firm.

The factors ranked number three and five are financial-performance factors that affect managerial decision-making autonomy, as is the factor (level of debt) that does not show up in the top five for the overall sample but is in the top five for public firms. The better the firm's operating financial performance, the greater the elbow-room that will be given to him by investors and the greater will be the manager's decision-making autonomy. That is, this factor may not be mutually exclusive with the Board sharing management's vision and strategy, in the sense that a dominant market share and good

past financial performance may be facilitating conditions for key employees and the Board to share management’s vision and strategy. Similarly, one would expect that higher levels of debt in the firm’s capital structure would limit the manager’s autonomy in making decisions due to creditor restrictions, whereas higher levels of cash accumulated within the firm would increase this autonomy because it would reduce the firm’s dependence on external financing where endorsement of the manager’s decisions by investors becomes an issue.

3.3 The Stakeholders whose Endorsement of Managerial Decisions is Important

Given that endorsement of managerial decisions by key stakeholders can affect perceived managerial decision-making autonomy, respondents were asked to name the top five stakeholders, and then rank these in order of importance (Question 14). They were provided a list of six stakeholders, with the option to add those not on the list.

Figure 3 shows the frequencies with which respondents ranked these six stakeholders in their top five. Table 5 shows the frequencies with which different stakeholders were ranked either number one or two in terms of importance for the overall sample, private firms and public firms. For public firms, we see that endorsement by the Board of Directors has the highest frequency (56%), followed by major shareholders/investors (48%), and then key employees (44%).

Table 5: THE MOST IMPORTANT STAKEHOLDERS FOR DECISION ENDORSEMENT

Stakeholder and Rank for Whole Sample	Percentage of Respondents Identifying Stakeholder as Most Important or Second-Most Important Among their Top Five Stakeholders		
	Whole Sample	Private Firms	Public Firms
(1) Board of Directors	56%	46%	78%
(2) Major shareholders/investors	48%	56%	30%
(3) Key employees	44%	43%	46%
(4) Customers and/or potential customers	32%	36%	24%
(5) Banks and other creditors	11%	12%	---
(6) Security analysts in the stock market	---	---	15%

The comparison between private and public firms is interesting. Major shareholders/investors represent the most important stakeholder for private firms, whereas they show up with only the third-highest frequency for public firms. The Board of Directors is the most important stakeholder for public firms. This may be in part due to Sarbanes-Oxley which has raised the importance of the endorsement of managerial decisions by the Board of Directors for public firms. Another reason may be the difficulty in aggregating shareholder views for public firms, so that the Board of Directors may proxy for shareholders in public firms. What is also striking is the importance of endorsement of managerial decisions by key employees for both private and public firms. Clearly, managers seem to care

considerably about how their decisions will be received *within* the organization. Endorsement by creditors shows up with a surprisingly low frequency, even for private firms, and does not show up at all for public firms where it is replaced by security analysts in the stock market. This may be a reflection of the stronger “shareholder value” or stock-price orientation of public firms.

We also asked the respondents to identify those stakeholders whose *lack of endorsement of managerial decisions* had the greatest impact in reversing, postponing or modifying decisions taken by the firm (Question 15). The same list of stakeholders was provided as in the previous question.

Figure 4 provides data on the frequencies with which the various stakeholders were picked among the top five stakeholders. Table 6 reports on the frequencies with which stakeholders were identified as being either the most important or the second-most important for the overall sample as well as for private and public firms.

Table 6: THE MOST IMPORTANT STAKEHOLDERS FOR REVERSING DECISIONS DUE TO LACK OF ENDORSEMENT

Stakeholder and Rank for Whole Sample	Percentage of Respondents Identifying Stakeholder as Most Important or Second-Most Important Among their Top Five Stakeholders		
	Whole Sample	Private Firms	Public Firms
(1) Board of Directors	52%	43%	73%
(2) Major shareholders/investors	47%	57%	26%
(3) Key employees	46%	42%	54%
(4) Customers and/or potential customers	30%	33%	25%
(5) Banks and other creditors	17%	19%	13%

The comparison between private and public firms here is similar to that in Table 3. The Board of Directors seems more important in terms of reversing, modifying or postponing a decision for public firms than for private firms. Major shareholders/investors are far more important in the case of private firms. Perhaps this reflects the stylized fact that ownership tends to be more concentrated in private firms, thereby exerting more direct influence over managerial decisions than in public firms where ownership tends to be more dispersed (see Pagano and Roell (1998), for example).

The most surprising finding is the prominent role assigned to endorsement of decisions by key employees. Van den Steen (2010) has recently developed a model in which firm boundaries are determined in part on the benefit of being able to direct a firm employee to do something that the employee disagrees with versus simply providing advice that the same person can ignore if she is an independent contractor outside the firm. What our findings show is that, despite the ability to simply direct employees to implement decisions, managers also seem to care about whether these employees endorse the decisions. This is consistent with the idea in Acharya, Myers and Rajan (forthcoming) that

subordinates may withhold their effort provision unless they observe the CEO behaving in a particular manner.

Next, we asked the respondents to indicate the factors that may be responsible for key management decisions not being endorsed by outsiders (e.g. shareholders/lenders/analysts) or by the Board of Directors (Question 16).

Table 7 provides data on the frequencies with which various factors were picked as being either the most important or the second-most important in lack of decision endorsement for the whole sample and for private firms and public firms.

Table 7: THE MOST IMPORTANT FACTORS RESPONSIBLE FOR KEY MANAGEMENT DECISIONS NOT BEING ENDORSED

Factor and Rank for Whole Sample	Percentage of Respondents Identifying Stakeholder as Most Important or Second-Most Important Among their Top Five Factors		
	Whole Sample	Private Firms	Public Firms
(1) Management and key stakeholders have access to the same information but interpret it differently in terms of the optimal decision it implies	59%	60%	56%
(2) Management has access to superior information but this information is difficult to communicate to key stakeholders, including investors	43%	42%	46%
(3) Management has different objectives from other key stakeholders	34%	35%	31%
(4) Poor past performance of the firm	25%	24%	27%
(5) There is a lack of consensus among the Board of Directors	24%	21%	32%

Disagreement over the interpretation of commonly-available information is the most-frequently-cited reason for lack of decision endorsement. This could either be due to heterogeneous beliefs as in Kurz (1994a, 1994b), as indicated earlier. Asymmetric information is second, and agency problems show up in third place. Firm performance, which affects managerial credibility, is fourth. Finally, lack of agreement *among* the Board is in fifth place.

3.4 Managerial Actions to Ensure Decision Endorsement

We asked the respondents to indicate the kinds of actions they take to facilitate decision endorsement by key stakeholders (Question 17). Figure 5 provides the frequencies with which various actions were picked by the respondents as being in their top five actions. Table 8 provides data on the actions that were picked as being either the most important or the second-most important for the overall sample as well as for private and public firms.

Table 8: THE MOST IMPORTANT ACTIONS TO ENSURE DECISION ENDORSEMENT

Action and Rank for Whole Sample	Percentage of Respondents Identifying Action as Most Important or Second-Most Important Among their Top Five Actions		
	Whole Sample	Private Firms	Public Firms
(1) Having consistent financial performance (operating performance and/or net profits)	49%	46%	55%
(2) Ensuring that senior management is in place that has the confidence of investors, directors and other constituents	48%	44%	55%
(3) Communicating clearly the company strategy to key employees and other stakeholders	33%	35%	28%
(4) Maintaining a high level of informational transparency regarding the firm and its decisions	27%	28%	24%
(5) Laying the groundwork with the Board ahead of time to facilitate alignment/agreement between management and the Board	24%	21%	32%

There is remarkable consistency across all three groups—the whole sample, private firms and public firms—in terms of the factor that is at the top. Having consistent operating financial performance is the most important determinant of stakeholder endorsement for both private and public firms. The second-most important determinant is the confidence of the investors, directors and other constituencies. A clear communication of strategy is the third-most important determinant for the whole sample and for private firms and fourth most important for public firms.

These determinants are easily interpretable. Consistent financial performance results in positive reassessments of managerial ability and reduces the likelihood of disagreement by important stakeholders who second-guess the manager. Similarly, confidence in the manager also diminishes the likelihood of disagreement between the manager and important stakeholders. A clear communication of strategy can ensure that the intent of managerial decisions is well understood, which again reduces the likelihood of disagreement. Nonetheless, clear communication of strategy is not an issue that has been the subject of empirical research in Finance. In particular, despite the fact that it affects decision endorsement and hence the decisions managers actually make, we have little understanding of why cross-sectional differences might exist in managerial ability to communicate strategy effectively.

4. CAPITAL RAISING AND M&A DECISIONS

In this section we discuss the evidence related to the capital-raising and M&A decisions of firms. Our focus is on the factors that affect these decisions.

4.1 Raising External Capital

We gave respondents a list of fifteen factors and asked them to assess the importance of these

factors in their decision to raise capital (Question 19). We asked them to choose the five most important factors and then rank these in order of importance. Forty-nine percent of the firms in the sample indicated that they had seriously considered raising capital (Question 18). The table below indicates the split across private and public firms.

Table 9: THE PERCENTAGE OF FIRMS THAT CONSIDERED RAISING EXTERNAL CAPITAL

Entire Sample (280 respondents)	Private Firms (191 respondents)	Public Firms (89 respondents)
49%	35%	80%

These findings are easy to interpret. One advantage of public ownership is the greater ease of raising external capital relative to private firms. This seems to be supported by these data—public firms were more than twice as likely to seriously consider raising external capital as private firms.

Respondents were then asked which factors affected their ability to raise external capital. They were given a list of fifteen factors plus the choice of identifying additional factors. They were asked to choose the five factors they viewed as the most important and then asked to rank them in order of importance. *Figure 6* shows the frequencies with which factors were ranked in the top five. *Table 10* summarizes the frequencies with which factors were ranked as either the most important or the second-most important for the overall sample as well as for private and public firms.

Table 10: A COMPARISON OF FACTORS CONSIDERED EITHER THE MOST IMPORTANT OR SECOND-MOST IMPORTANT IN DETERMINING THE FIRM'S ABILITY TO RAISE EXTERNAL CAPITAL

Factor and Rank for Whole Sample	Percentage of Respondents Identifying Factor as Most Important or Second-Most Important Among their Top Five Factors		
	Whole Sample	Private Firms	Public Firms
(1) Our overall corporate strategy and whether the security issued will facilitate or impede management's flexibility/freedom/ability to execute the strategy	36%	27%	45%
(2) Our past financial performance (operating profits and/or net profits)	25%	25%	25%
(3) How the security issued will affect our capital structure relative to our long-term target	24%	---	26%
(4) Whether profits have been sufficient to internally fund the firm's activities without raising external capital	23%	28%	18%
(5) Our expectation of our future cash flows	22%	31%	---
(6) Our debt service capacity	---	24%	---
(7) Earnings per share dilution	---	---	29%

It is interesting that the most important factor (for the overall sample and for public firms)

determining the firm's decision to raise capital is whether the security issued will facilitate or impede managerial decision-making autonomy to execute the strategy. This is consistent with the viewpoint developed in Dittmar and Thakor (2007) that managerial autonomy is an important determinant of the firm's choice of security with which to raise external finance.

In addition to this, firms seem to be concerned about their performance track record in deciding whether to raise capital. This may be because the firm's track record may affect both the firm's access to capital as well as its cost of capital. This track record may be indicative of the magnitude of agency problems. It may also be related to the likelihood of decision endorsement by those who exert control influences on the manager, and hence consistent with the earlier documented concern with decision endorsement given possible disagreement.

Another important set of factors includes whether profits have been sufficient to satisfy the firm's future investment needs, as well as the firm's expectation of future cash flows, although the latter factor does not show up for public firms. This seems to be supportive of the Myers and Majluf (1984) theory that firms will avoid external finance if they can fund projects through retained earnings.

Capital structure considerations matter in the security issuance decision, although they show up in the context of a target capital structure for public firms and debt service capacity for private firms.

Finally, public firms also seem concerned about the earnings-per-share dilution effect of the security issuance. This is something that has not been accounted for in either the theoretical or empirical work in this area, although few practitioners would be surprised to hear that managers care about earnings-per-share dilution.

4.2 Mergers and Acquisitions

We asked the respondents to first indicate whether their firms had seriously considered acquiring another firm (Question 20). In the overall sample, 72% of the respondents answered in the affirmative. This number was 62% for private firms and 94% for public firms. This suggests that acquisitions may be another motive for being public or at least that being public facilitates the ability to acquire other firms.

We then asked respondents to indicate the factors that are most important to them in their decision to acquire another firm (Question 21). Eleven factors were provided to them, with the option to add factors not on the list. *Figure 7* shows the frequencies with which various factors were chosen to be in the top five. *Table 11* provides a summary of frequencies with which these factors showed up as being either the most important or the second-most important factor for the overall sample and for private and public firms.

Table 11: A COMPARISON OF THE FACTORS CONSIDERED THE MOST IMPORTANT OR THE SECOND-MOST IMPORTANT IN AFFECTING A FIRM'S ACQUISITION DECISION

Factor and Rank for Whole Sample	Percentage of Respondents Identifying Factor as Most or Second-Most Important Among their Top Five Factors		
	Whole Sample	Private Firms	Public Firms
(1) Your estimate of the profitability of the acquisition or investment	62%	61%	64%
(2) Product market synergies	42%	36%	49%
(3) Competitive reasons	26%	23%	31%
(4) Cultural compatibility of your firm with the target	25%	27%	22%
(5) Endorsement by the Board of Directors	23%	20%	27%

It is not surprising that the estimated profitability of the acquisitions, product market synergies and competitive reasons are the top three factors that influence the firm's acquisition decision. What is interesting is that acquirers also attach considerable importance to the cultural compatibility of the acquirer and the target. Moreover, anticipated endorsement by the Board of Directors is also important, and more so for public firms than for private firms. As in the responses to the previous questions, decision endorsement is a major consideration for managers as they contemplate various policy initiatives.

5. FINANCIAL POLICY: DIVIDENDS AND CAPITAL STRUCTURE

In this section we examine the factors that managers consider important in their dividend policy and capital structure decisions.

5.1 Dividend Policy

We provided respondents with a list of nine factors that could potentially influence corporate dividend policy and asked them to choose the five most important, rank-ordering these five in order of importance (Question 22). As with the previous questions, we gave them the choice to add a factor not on the list. *Figure 8* shows the frequencies with which various factors were chosen to be in the top five. *Table 12* shows the frequencies with which factors were chosen to be either the most important or the second-most important for the overall sample and private and public firms.

Table 12: A COMPARISON OF THE FACTORS CONSIDERED THE MOST IMPORTANT OR THE SECOND-MOST IMPORTANT IN DETERMINING THE FIRM'S DIVIDEND POLICY

Factor and Rank for Whole Sample	Percentage of Respondents Identifying Factor as Most Important or Second-Most Important Among their Top Five Factors		
	Whole Sample	Private Firms	Public Firms
(a) Future growth opportunities	53%	60%	38%
(2) Your company's own past dividends	26%	16%	49%
(3) Personal taxation of dividend at the shareholder level	26%	36%	---
(4) Setting lower dividends now will provide additional internal financing in the future	24%	29%	---
(5) Anticipated reaction of investors, analysts and other constituencies toward any chosen dividend policy	19%	---	40%
(6) Desire to pay out excess cash so as to reduce organizational slack and improve operating efficiency	---	10%	---
(7) Peer group dividends	---	---	14%
(8) Level of firm's current and recent past stock price	---	---	34%

The differences between private and public firms are striking. While future growth opportunities and the company's own past dividends are important for both private and public firms, the responses of these firms differ in four significant respects. First, unlike public firms, private firms attach high importance to personal taxation of dividends at the shareholder level and to conserving cash to meet future financing needs. This may be because ownership is typically more concentrated in private firms, and thus they may have more direct influence on the firm's dividend policy, which would explain the prominence of personal taxes for these firms. More limited access to external financing for private firms may also explain their stronger desire than public firms to limit dividends to conserve cash for investments. Second, free-cash-flow problems as a driver of dividend policy (see (6) in *Table 11* above) seem to be more prominent for private firms than for public firms, possibly reflecting the effect of greater transparency and stronger governance in public firms. This does nonetheless provide some support for agency problems influencing corporate dividend policy (e.g. Fluck (1998) and Myers (2000)). Third, peer group dividends represent a more significant factor for public firms than for private firms. This is an intriguing finding because it suggests that *peer benchmarking* is a *more* important practice in public firms. Why this should be so is an open theoretical question. Fourth, issues related to disagreement and decision endorsement seem to be a lot more important for public firms than for private firms. The anticipated reaction of investors, analysts and other constituencies toward any chosen dividend policy shows up prominently for public firms but not private firms. Why public firms

care about these reactions is another puzzle to explain. Finally, signaling considerations do not appear to be driving dividend policy. Moreover, the link between stock price and dividend policy is an interesting stylized fact for future theories to explain.

5.3 Capital Structure

We asked respondents a number of questions about their firms' capital structure decisions. These results are discussed here.

Does Your Firm Have a Target Debt-Equity Ratio?

The results related to this question are summarized in the table below:

Table 13: PERCENTAGE OF RESPONDENTS INDICATING THAT THEIR FIRM HAS A TARGET DEBT-EQUITY RATIO

Type of Firm	Percentage of Respondents Indicating their Firm has a Target Debt-Equity Ratio
Whole Sample	43%
Private Firms	38%
Public Firms	56%
Large Public Firms	58%
Small Public Firms	54%

It is interesting that the percentage of firms indicating that they have a target debt-equity ratio is higher for public firms than for private firms. We are not aware of any theories that explain this, so it remains an open question for future research.

How is the Target Debt-Equity Ratio Set?

We also asked respondents to provide information about how their firms set their target debt-equity ratios. They were asked to assess the relevance of the following statements:

- ◆ We have a fixed target debt-equity ratio that has been formalized for decisions and internal communication.
- ◆ Our target level is tied to our peers' debt-equity ratio or is aimed at being similar to other firms in the industry.
- ◆ We do not have a fixed target, but our debt-equity ratio lies in a range that depends on our past stock performance.

The table below summarizes the findings:

Table 14: PERCENTAGE OF RESPONDENTS WHOSE FIRMS HAVE TARGET DEBT EQUITY RATIOS WHO CHOSE THE FOLLOWING STATEMENTS AS APPLICABLE OR VERY APPLICABLE

Statement	Percentage of Respondents Choosing Statement as Applicable or Very Applicable		
	All Firms (122)	Private Firms	Public Firms
(a) We have a fixed target debt-ratio (e.g. 1.0) that has been formalized for decisions and internal communication	57%	55%	56%
(b) Our target level is tied to our peers' debt-equity ratio or is aimed at being similar to other firms in the industry	34%	32%	34%
(c) We do not have a fixed target, but our debt-equity ratio lies in a range that depends on our past stock performance	18%	14%	23%

The majority of firms, both private and public, have fixed target debt-equity ratios that have been formalized for decisions and internal communication. It appears that in at least some of these instances, this fixed target is set based on the debt-equity ratios of peer firms (note the overlap between (a) and (b) implied by the fact that the percentages in (a), (b) and (c) add up to more than 100%). In some cases, the target ratio is changed based on past stock performance. The fact that 14% of private firms indicated that their target debt-equity ratio changes based on past stock performance is interpreted by us as implying that some private firms benchmark their operating performance against that of listed firms and then infer how their stock would have performed had they been public.

Is the Debt-Equity Ratio Target in Book Value or Market Value Terms and How is it Adjusted?

This question was relevant only for public firms, so we report below the public firm responses.

Table 15: PERCENTAGE OF PUBLIC-FIRM RESPONDENTS INDICATING WHETHER THEIR FIRMS SET THEIR TARGET DEBT-EQUITY RATIOS IN BOOK VALUE OR MARKET VALUE TERMS AND HOW THEY ADJUSTED IT

Statement	Percentage of Respondents Agreeing with Statement		
	All Public Firms (56)	Large Public Firms	Small Public Firms
(a) Our firm sets its target debt-equity ratio in market-value terms	55%	51%	63%
(b) Our firm sets its target-debt-equity ratio in book-value terms	45%	49%	37%
(c) Our target debt-equity ratio is adjusted when our stock price changes	31%	36%	22%
(d) Our target debt-equity ratio is not adjusted to stock price changes	69%	64%	78%

Consistent with Finance theory, the majority of public firms do set their target debt-equity ratios in market-value terms. Nonetheless, as many as 45% of public firms set this ratio in book value terms.

Moreover, 69% of all public firms do *not* adjust it based on stock price changes. This means that even some firms that set their debt-equity ratios in market-value terms do not adjust this ratio when the stock price changes. These findings are consistent with Welch’s (2004) evidence that a large portion of capital structure dynamics can be explained by stock price dynamics.

6. FACTORS THAT IMPINGE ON MANAGERIAL DECISION-MAKING AUTONOMY

The final question on the survey asked respondents to indicate which factors were most important in increasing or decreasing their decision-making autonomy. They were given a list of twelve factors to choose from, with the option to add factors not on the list. Respondents were asked to assign a number from 1 to 5 to each factor, where “1” means that the factor *increases* decision-making ability by a lot, “2” means it *increases* it, “3” means it does not affect it, “4” means it *decreases* decision-making ability, and “5” means it *decreases* it by a lot. There was *no* ranking of factors involved.

The table below summarizes the findings.

Table 16: THE FACTORS THAT INCREASE AND DECREASE MANAGERIAL DECISION-MAKING AUTONOMY

Panel A: The Top Three Factors in Terms of the Percentage of Respondents Indicating that these Factors Increase or Increase by a Lot Managerial Decision-Making Autonomy			
Factor and Rank in Overall Sample	Percentage of Respondents Choosing the Factor		
	All Firms	Private Firms	Public Firms
(1) Good past financial performance (operating performance and/or net profits)	90%	90%	89%
(2) Strong competitive position	88%	86%	93%
(3) Cash accumulated within the firm	84%	84%	85%

Panel B: The Top Three Factors in Terms of the Percentage of Respondents indicating that these Factors Decrease or Decrease by a Lot Managerial Decision-Making Autonomy			
(1) High fraction of debt in existing capital structure	50%	51%	47%
(2) Issuing debt to finance investments	25%	25%	27%
(3) Having institutional investors as shareholders	18%	17%	---
(4) Ownership of the firm’s stock is concentrated in the hands of a few large shareholders	---	---	29%

Consider first the factors that positively impact managerial decision-making autonomy. The data here are remarkably consistent across public and private firms. Having good past financial performance, a strong competitive position and accumulated cash within the firm all increase managerial decision-making autonomy. The economic interpretations are intuitive. Good financial performance positively impacts investors’ beliefs about managerial ability (e.g. Holmstrom and Ricart i Costa (1986)) and reduces the likelihood of disagreement. Being in a strong competitive position has a similar effect. Accumulated cash diminishes the need to approach investors for additional financing and thus reduces the impact of potential manager-investor disagreement (see Thakor (2010)).

Just as revealing are the factors that negatively impact managerial decision-making autonomy. High amounts of debt and the use of debt to finance investments are viewed as *decreasing* managerial autonomy. This is consistent with the notion that debt represents a hard claim that limits managerial decision-making autonomy (e.g. Hart and Moore (1995)). What is interesting is that institutional investors and ownership concentration in the hands of a few large shareholders are also viewed as impeding managerial autonomy. This may be because manager-investor disagreement may be easier or less costly for the manager to overcome when ownership of the firm is more fragmented. It is consistent with the assumption in Pagano and Röell (1998) that the manager has less control when outside ownership of the firm is more concentrated.

7. REGRESSION ANALYSIS

We also tested the six hypotheses formulated in the Introduction regarding the leverage and payout ratios of firms. The hypotheses are as follows. *Hypothesis 1*: Firms that value decision-making autonomy more have lower leverage ratios (Dittmar and Thakor (2007)). *Hypothesis 2*: Firms that face larger asymmetric information problems, as reflected in asymmetric information being ranked as the most important or second-most important factor responsible for key management decisions not being endorsed, have lower leverage ratios (Leland and Pyle (1977) and Morrison and White (2005) or higher leverage ratios than other firms (Ross (1977)). *Hypothesis 3*: Firms that face bigger agency problems, as reflected in a divergence of objectives being ranked as the most important or second-most important factor responsible for key management decisions not being endorsed, have higher leverage ratios than other firms (e.g., Hart and Moore (1995)). *Hypothesis 4*: Firms that value decision-making autonomy more have lower dividend payout ratios (e.g. Thakor (2010)). *Hypothesis 5*: Firms that face larger asymmetric information problems have higher dividend payout ratios than other firms (e.g. Bhattacharya (1979)). *Hypothesis 6*: Firms that face bigger agency problems have higher dividend payout ratios than other firms (e.g. Fluck (1998) and Myers (2000)).

To test these hypotheses, we focus on the 101 public firms in the sample. Since we know the identities of the respondents, we can gather balance sheet and income statement data from Compustat and stock price information from CRSP for these firms. We include three years of data in our regressions (2005-2007).

Classification as those who value decision-making autonomy: We classify respondents as valuing decision-making autonomy (i.e. viewing the preservation of an optimal degree of decision-making flexibility/freedom/autonomy without being restricted by investors or creditors as important) if they gave scores of 1 or 2 to any of the following answers:

12g: Important goal of the firm: “Preserving an optimal degree of decision-making flexibility/freedom/autonomy without being restricted by investors or creditors”.

13h/13i/13j: Important factors in determining the firm’s ability to cope with or take advantage of unexpected changes in the environment: “The Board/major investors/key employees share management’s vision and strategy”.

16b/16d: Important factors that may be responsible for a key management decision in the firm not being endorsed by outsiders or by the Board of Directors: “Management and key stakeholders have access to the same information but interpret it differently in terms of the optimal decision it implies/ There is a lack of consensus among the Board of Directors”.

19i/19j/19n: Important factors in the firm’s decision to raise external capital: “Anticipated reaction of creditors to the security issued in terms of an easing or tightening of future loans or bond covenants/Anticipated impact of the security issued on the bond rating/The difference between debt and equity in terms of the strategic and operating flexibility each provides management”.

21a/21b/21c: Important factors in a firm’s decision to acquire another firm: “Endorsement by shareholders and major investors/Endorsement by lenders/Endorsement by the Board of Directors”.

27h/27i: Factors that may increase the firm’s ability to respond to unexpected changes in the economic environment: “The Board shares management’s vision and strategy/Major investors share management’s vision and strategy”.

Classification as those for whom agency problems are important: We classify respondents as attaching significant importance to agency problems or as being involved in firms with potentially significant agency problems if they gave scores of 1 or 2 to any of the following answers:

16c: Factors that may be responsible for a key management decision in your firm not being endorsed by outsiders or by the Board of Directors: “Management has different objectives from other key stakeholders.”

17f: Actions that may be important to help ensure that shareholders, lenders, key employees and the Board of Directors endorse major decisions: “Striving to improve accountability.”

We also included respondents that indicated in their response to question 18 that their firms had *not* considered raising external capital, since avoiding external finance tends to exacerbate agency problems (see Myers (2000)). Also included were respondents who did *not* assign a score of 1 or 2 to:

21d: Factors that may be important in a firm’s decision to acquire another firm: “Your estimate of the profitability of the acquisition or investment.”

The idea here is that agency problems are likely to be present at firms that do not predicate their

acquisition decisions on the profitability of the investment.

Finally, in recognition of the monitoring effectiveness of concentrated ownership and institutional shareholders in resolving managerial agency problems, we included respondents who did *not* assign a score of 1 or 2 to:

27j/27k: Factors that may increase or decrease your ability to respond to unexpected changes in the economic environment: “Ownership of the firm’s stock is concentrated in the hands of a few large shareholders/Having institutional investors as shareholders.”

Classification of those for whom asymmetric information is important: Similarly, we classify respondents as attaching significant importance to asymmetric information as a factor if they gave scores of 1 or 2 to any of the following answers:

16a: Factors that may be responsible for a key management decision in your firm not being endorsed by outsiders or by the Board of Directors: “Management has access to superior information but this information is difficult to communicate to key stakeholders, including investors.”

19g/19e: Factors that may be important in a firm’s decision to raise external capital: “The firm’s equity was overvalued or undervalued in the market/The stock price has risen recently (past 1-2 months) and the price at which stock can be issued is attractive.” The idea here is that if the manager views the stock as being overvalued or undervalued or thinks of the firm’s stock price as “attractive,” then there is significant asymmetric information.

21e: Factors that may be important in a firm’s decision to acquire another firm: “Your current stock price.” Again the idea is that if acquisition decisions are made based on the acquiring firm’s stock price, then they are likely to be made when the price is attractively high or the stock is overvalued.

27f/27g: Factors that may increase or decrease your ability to respond to unexpected changes in the economic environment: “High stock price over the past 1-2 months/High stock price over the past 6 months or longer.”

Tests of Hypotheses 1 - 3:

To test whether firms that value decision-making autonomy operate with *lower* leverage ratios than other firms (Hypothesis 1), while those that face important asymmetric information or agency problems operate with *higher* leverage ratios (Hypotheses 2 and 3, respectively), we perform the following analyses. We regress the leverage ratio alternatively on variables that measure the importance of decision-making autonomy, asymmetric information, or agency problems while controlling for firm size and including year and industry fixed effects. The leverage ratio is alternatively measured in book value terms (the book value of interest-bearing debt divided by the book values of

interest-bearing debt and equity) and in market value terms (the book value of interest-bearing debt divided by the book value of interest-bearing debt and the market value of equity). To find support for Hypotheses 1 – 3, we should find statistically significantly negative coefficients on decision-making autonomy, statistically significant coefficients on asymmetric information, and statistically significantly positive coefficients on agency problems.

Table 17 Panels A1 and A2 show the results for book and market leverage, respectively. In both panels, columns (i) and (ii) use the log of assets and the log of sales as alternative measures of firm size, respectively. The coefficients on decision-making autonomy are negative and significant at the 1% level in all cases, suggesting that firms that value decision-making authority have significantly lower leverage ratios, offering support for Hypothesis 1. The coefficients on asymmetric information are also negative and significant at the 1% level, suggesting that firms with important asymmetric information problems have significantly lower leverage, offering support for the equity-signaling version (Leland and Pyle (1977) and Morrison and White (2005)) of Hypothesis 2. Note, however, that our survey did not ask respondents whether they used capital structure as a signaling device, nor do we examine price reactions to capital structure changes. So this evidence should merely be viewed as being consistent with Leland and Pyle (1977) and Morrison and White (2005), rather than being related to direct tests of their models. The coefficients on agency problems are negative based on book leverage and positive based on market leverage, but not significant in any case, suggesting that firms with major agency problems do not have significantly different leverage ratios from those with minor agency problems, offering *no* support for Hypothesis 3.

Tests of Hypotheses 4 - 6:

Similarly, to test whether firms that value decision-making autonomy have lower payout ratios than other firms (Hypothesis 4), while firms that face major asymmetric information or agency problems have higher payout ratios (Hypotheses 5 and 6, respectively) we perform the following analyses. We regress the payout ratio, calculated as dividends to common stockholders divided by net income, alternatively on decision-making autonomy, asymmetric information, or agency problems. We again control for firm size and include year and industry fixed effects. We should find that the coefficients on decision-making autonomy are negative and statistically significant, while those on asymmetric information and agency problems are positive and statistically significant.

Table 17 Panel B shows the results. The coefficients on decision-making autonomy are again negative and significant at the 1% level, suggesting that firms that value decision-making authority have significantly lower payout ratios, offering support for Hypothesis 4. The coefficients on asymmetric

information are negative but not significant, suggesting that firms with important asymmetric information problems have insignificantly lower rather than higher payout ratios, providing *no* support for Hypothesis 5. The coefficients on agency problems are positive but not significant, suggesting that firms with major agency problems have insignificantly higher payout ratios, providing rather weak support for Hypothesis 6.

Thus, the regression results provide evidence that decision-making autonomy significantly affects key financial policy decisions as expected, while there is no statistically significant evidence of agency problems affecting those decisions. Asymmetric information affects leverage ratios significantly as predicted by Leland and Pyle (1977) and Morrison and White (2005), but its effect on the dividend payout ratio is insignificant.

Table 17: DECISION-MAKING AUTONOMY, LEVERAGE AND PAYOUT RATIO

Panel A1: Testing Hypotheses 1 – 3						
Dependent Variable: Firms' Book Leverage						
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Decision-making autonomy	-0.376 (-4.96)***	-0.400 (-5.25)***				
Asymmetric information			-0.155 (2.91)***	-0.165 (3.04)***		
Agency problems					-0.301 (-1.40)	-0.281 (-1.28)
log(assets)	0.031 (3.01)***		0.035 (3.37)***		0.037 (3.49)***	
log(sales)		0.019 (1.69)*		0.020 (1.73)*		0.018 (1.50)
Constant	0.401 (3.12)***	0.540 (4.24)***	0.138 (-1.22)	0.293 (2.51)**	0.298 (1.25)	0.463 (1.83)*
Year and industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	286	283	286	283	286	283
Adjusted R-squared	0.14	0.12	0.09	0.06	0.07	0.04

Panel A2: Testing Hypotheses 1 – 3						
Dependent Variable: Firms' Market Leverage						
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Decision-making autonomy	-0.185 (-4.38)***	-0.212 (-4.85)***				
Asymmetric information			-0.085 (2.90)***	-0.096 (3.13)***		
Agency problems					0.139 (1.17)	0.163 (1.31)
log(assets)	0.031 (5.46)***		0.033 (5.75)***		0.034 (5.87)***	
log(sales)		0.019 (2.97)***		0.020 (3.00)***		0.020 (2.96)***
Constant	0.128 (1.78)*	0.270 (3.70)***	0.006 (-0.10)	0.146 (2.21)**	-0.209 (-1.59)	-0.093 (-0.65)
Year and industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	286	283	286	283	286	283
Adjusted R-squared	0.28	0.23	0.25	0.19	0.24	0.16

Panel B: Testing Hypotheses 4 – 6						
Dependent Variable: Firms' Payout Ratio						
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Decision-making autonomy	-0.652 (-3.05)***	-0.692 (-3.26)***				
Asymmetric information			-0.223 (-1.50)	-0.241 (-1.61)		
Agency problems					0.729 (1.31)	0.797 (1.42)
log(assets)	0.044 (1.42)		0.056 (1.77)*		0.057 (1.83)*	
log(sales)		0.036 (1.07)		0.039 (-1.15)		0.042 (1.22)
Constant	0.639 (1.65)	0.768 (2.04)**	0.111 (-0.33)	0.294 (-0.86)	-0.805 (-1.28)	-0.709 (-1.07)
Year and industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	251	251	251	251	251	251
Adjusted R-squared	0.04	0.03	0.01	0.01	0.01	0.00

8. CONCLUSION

This paper has analyzed survey evidence on managerial goals, how managers make decisions, what affects their ability to make decisions that achieve these goals, the actions managers undertake to influence their decision-making autonomy, and how these considerations affect capital-raising, mergers-

and-acquisition decisions, and corporate financial policy. A number of new insights have emerged from the data. We hope that these will be useful both for determining appropriate control variables in empirical studies and for guiding the development of theoretical models.

The key findings can be summarized as follows. First, for both public and private firms, the top goal is ensuring growth and stability for all stakeholders. Shareholder value maximization is the second-most important goal. Market share is third. We interpret this to imply that growth in market share may be the way that managers operationalize their goal of creating shareholder value and ensuring growth and stability for all stakeholders.

Second, managers care considerably about potential disagreement with key stakeholders that can restrict their decision-making autonomy. The key stakeholders include the Board, key employees, major shareholders/investors, customers, and security analysts.

Third, for both public and private firms, their past financial performance, their competitive position and on-balance-sheet cash are viewed as factors that increase the manager's decision-making autonomy, whereas the presence of high on-balance-sheet debt, the use of debt for financing new projects, and large shareholders are viewed as reducing managerial decision-making autonomy.

Fourth, managers actively undertake actions to reduce potential disagreement with key stakeholders. These include achieving consistent financial performance, developing the confidence of key stakeholders, laying the groundwork with the Board to get agreement, clearly communicating the firm's strategy, and having transparency.

Fifth, 80% of all public firms and 35% of private firms seriously considered raising external capital. Many factors were considered important in the security issuance decision, including corporate strategy and whether the security under consideration would facilitate or impede managerial decision-making autonomy to implement the strategy. Another surprising factor, which shows up only for public firms, is *EPS dilution*.

Sixth, for both private and public firms, one of the factors considered important in acquisitions is the *cultural compatibility* of the target with the acquirer. Another factor is the endorsement of the Board of Directors.

Seventh, there are also some surprises for dividend policy—findings for which we have no theoretical basis. Public firms predicate their dividend policies on factors such as the anticipated reaction of investors and analysts, current and past stock price, and the dividend policies of peer group firms. That is, there is evidence of *peer benchmarking* for dividends paid by public firms. Paying dividends to deal with agency/free-cash-flow problems (e.g. Myers (2000), and Fluck (1998)) shows up

as an important factor only for private firms. Less surprisingly, private firms take into account the personal tax consequences of dividends for their shareholders and also that paying lower dividends now will mean the availability of higher internal financing in the future.

Eighth, regression results indicate that managers who value their decision-making autonomy more choose lower dividend payout and leverage ratios. However, agency problems do not seem to statistically significantly affect either dividend policy or capital structure. Asymmetric information affects capital structure significantly as predicted by some signaling models, but it does not appear to be a significant driver of dividend policy.

Finally, only 58% of public firms and 38% of private firms mentioned that they had target debt-equity ratios. A surprising 34% of public firms and 32% of private firms said their target ratio was related to the debt-equity ratios adopted by their peers. Of the public firms, 55% stated that they set their target debt-equity ratio in market-value terms, and 69% said that they did not adjust their ratio to movements in their stock prices. Thus, even among public firms that set their target debt-equity ratios in market-value terms, many firms make no proactive capital structure adjustments in response to stock price changes. This seems consistent with the findings in Welch (2004).

We believe this survey has surfaced some interesting patterns in the data, and hopefully provided some fuel for new directions in research.

Figure 1: Goals (Q. 12)
Percentage of 321 respondents identifying a goal as being in the top five

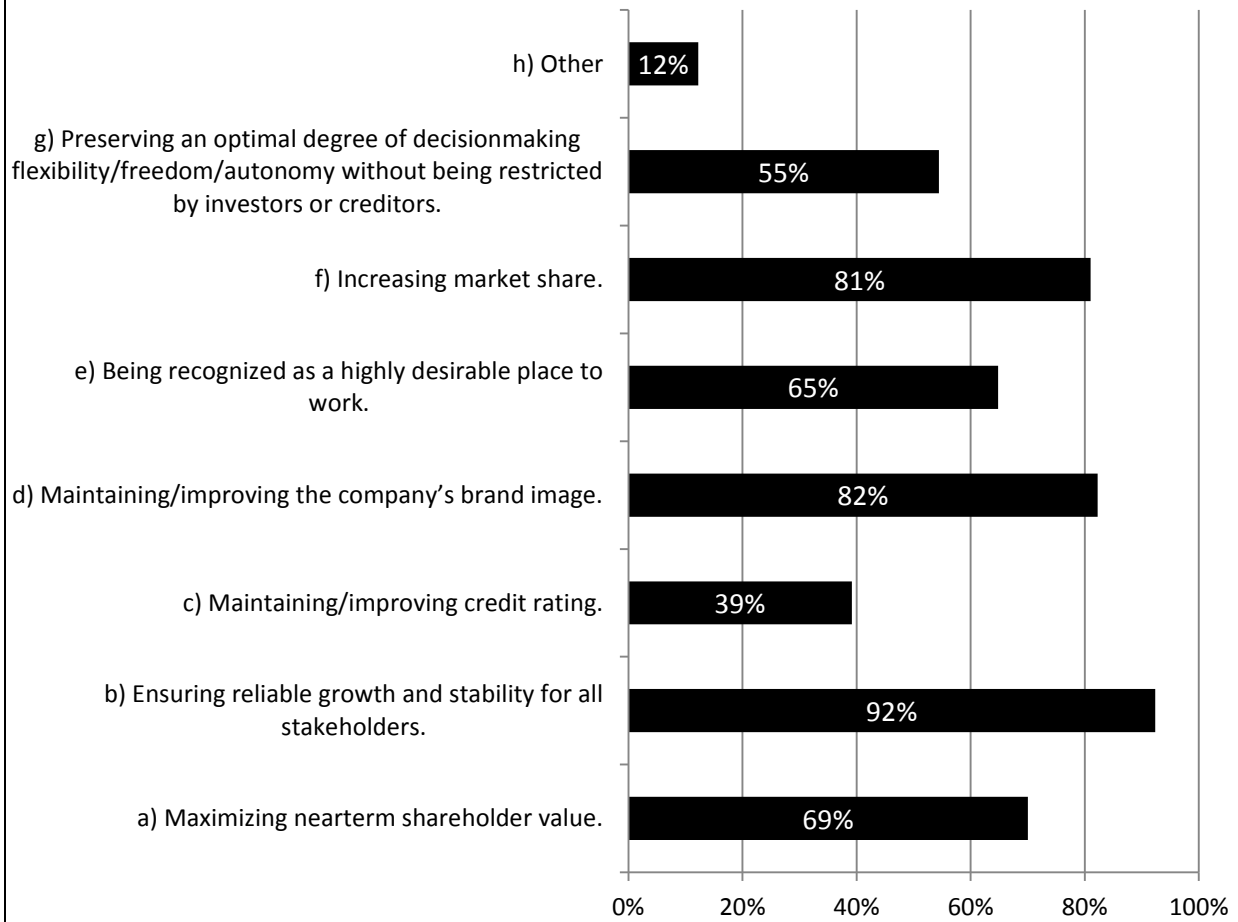


Figure 2: Managerial autonomy (Q. 13)
Percentage of 316 respondents identifying a factor as being a top-five factor affecting the firm's ability to cope with unexpected environmental changes

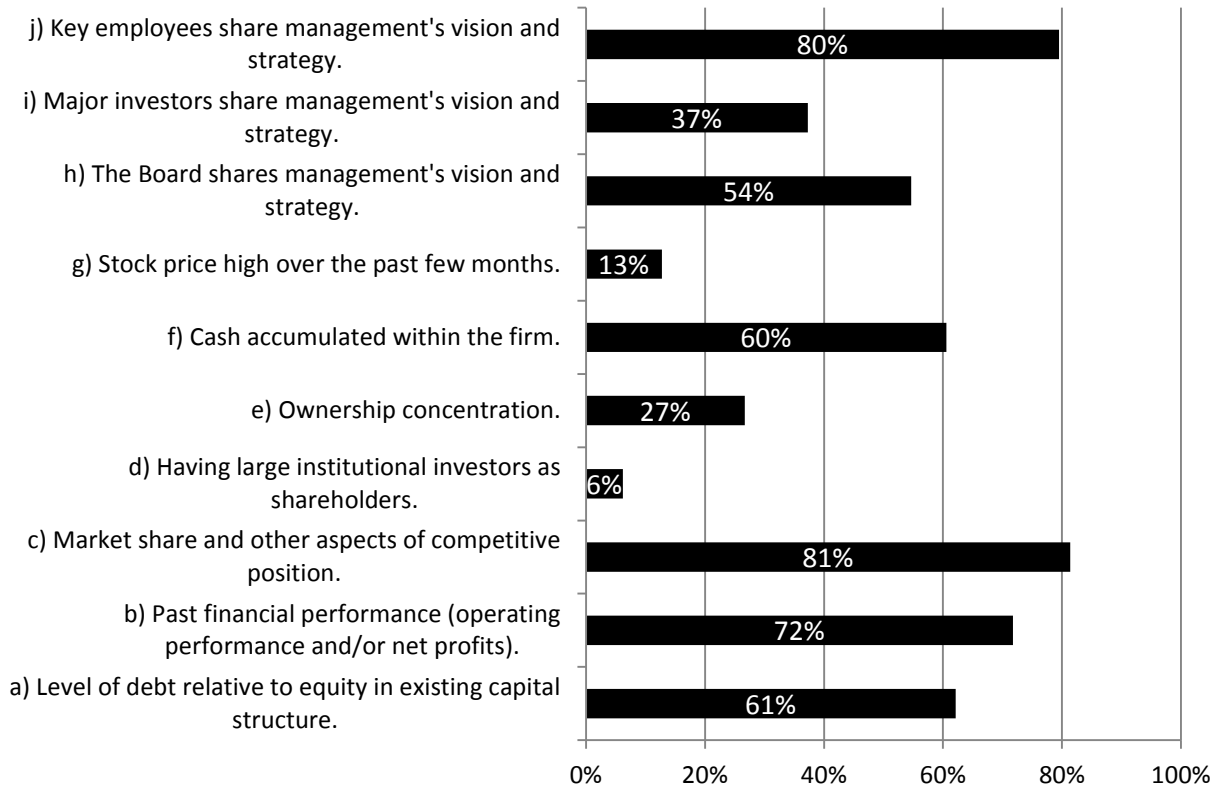


Figure 3: Stakeholder endorsement (Q. 14)
Percentage of 315 respondents identifying a stakeholder as being in the top five in terms of decision endorsement

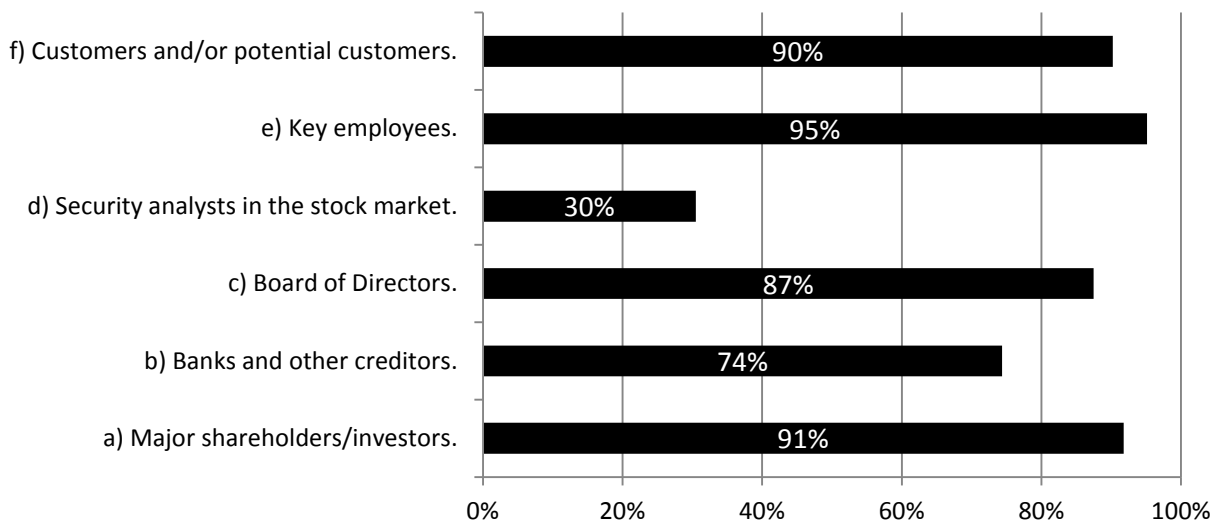


Figure 4: Past stakeholder endorsement (Q. 15)
Percentage of 307 respondents identifying a stakeholder as being in the top five in terms of having caused a reversal/postponement/modification of a managerial decision due to lack of endorsement

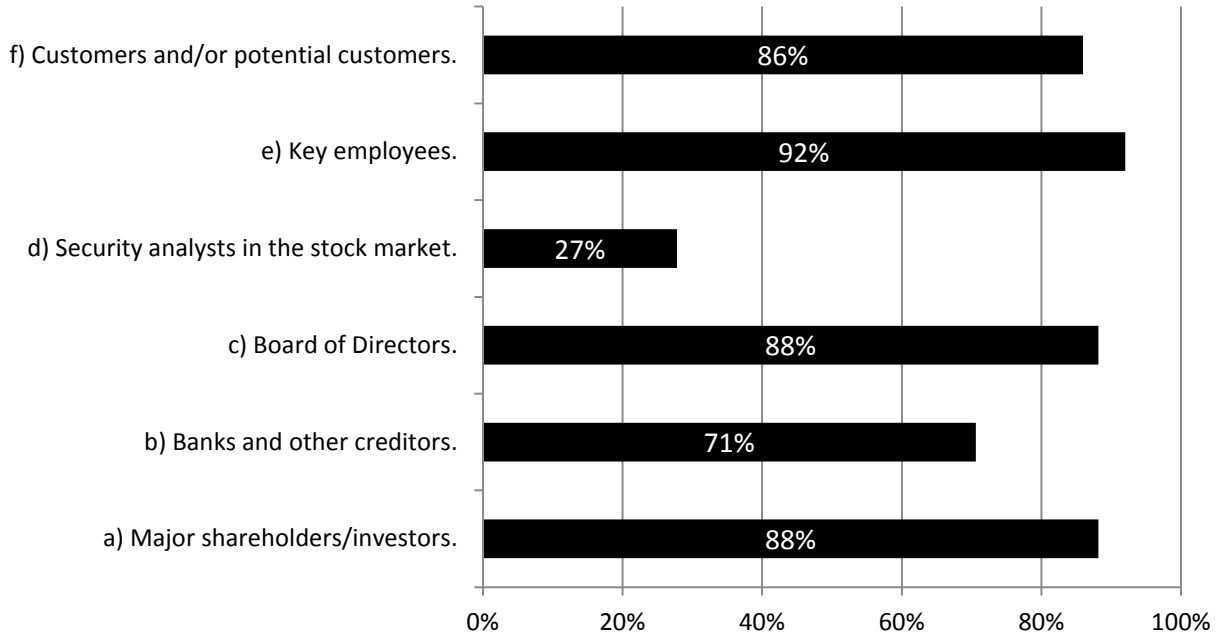


Figure 5: Actions to ensure endorsement (Q. 17)
Percentage of 286 respondents identifying an action as being in the top five for ensuring endorsement by key stakeholders

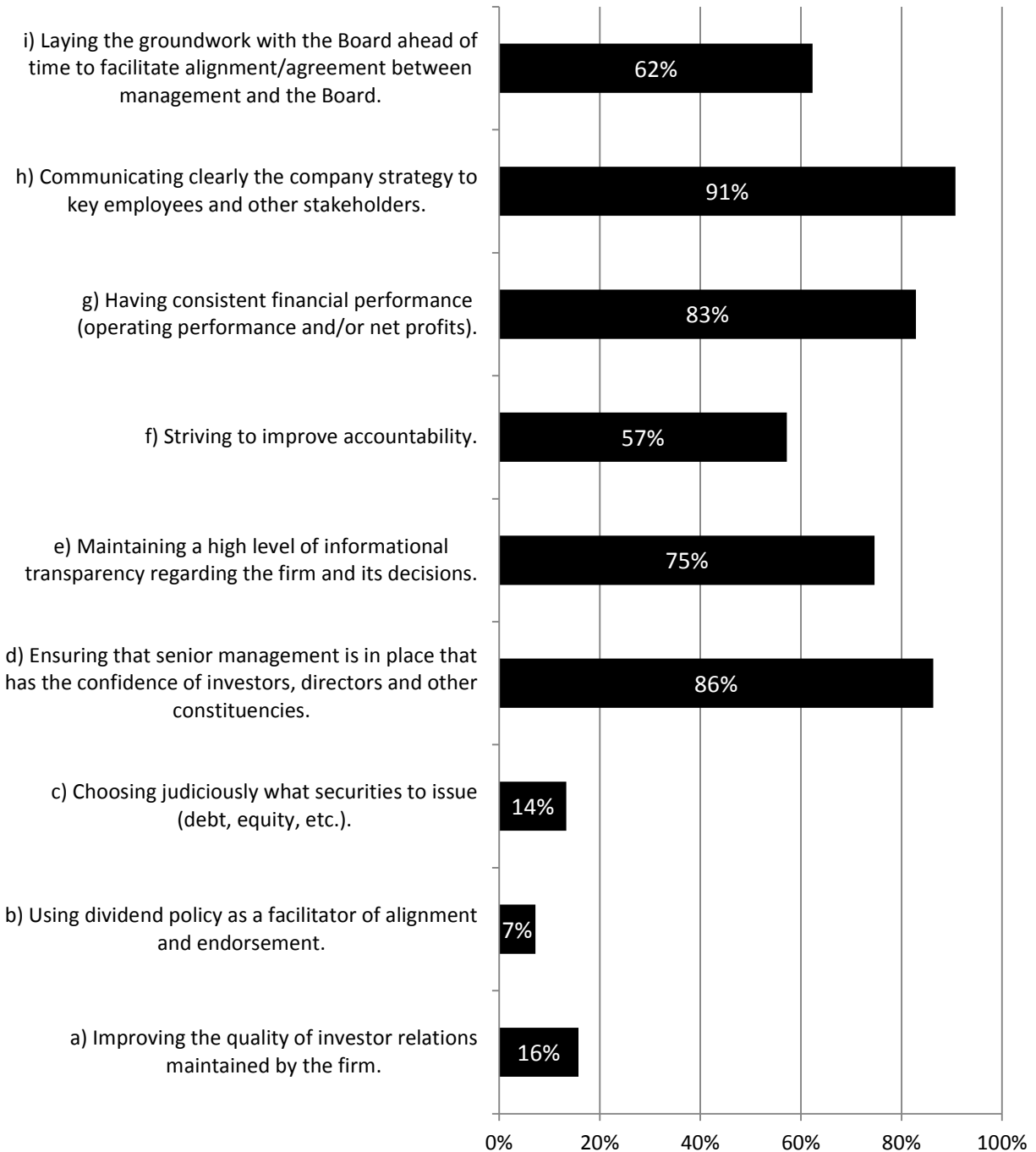


Figure 6: Raising external capital (Q. 19)
Percentage of 143 respondents whose firms considered raising capital
identifying a factor affecting their ability to raise capital as being in the top five

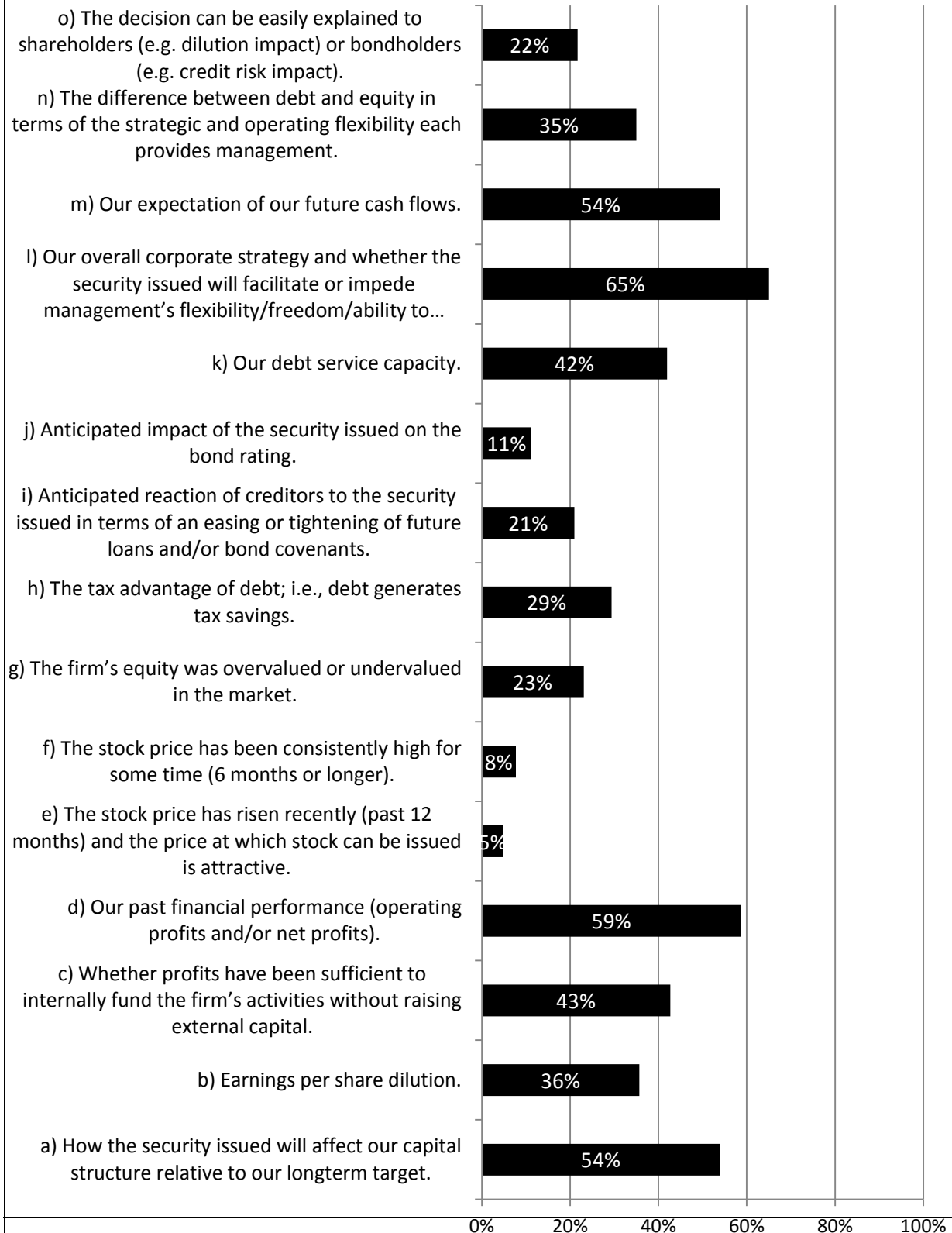


Figure 7: M&A (Q. 21)

Percentage of 207 respondents whose firm considered M&A identifying a factor affecting their decision to acquire as in the top five factors

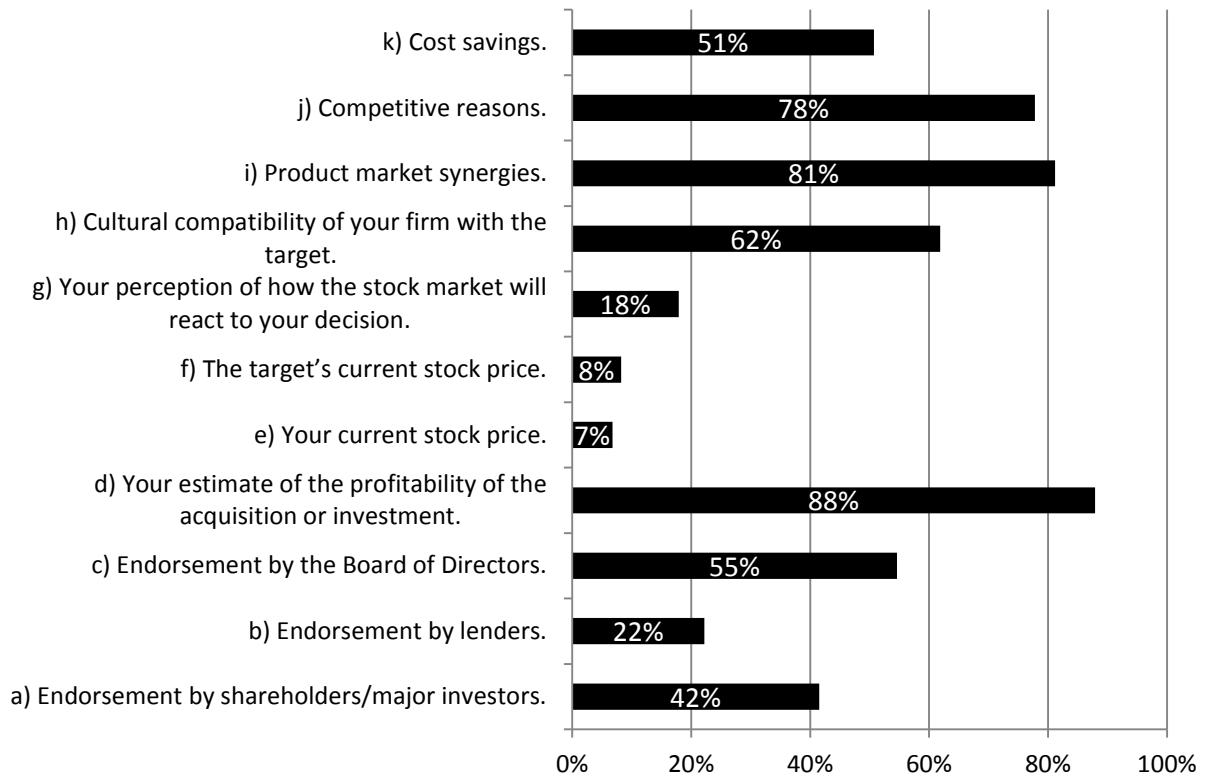
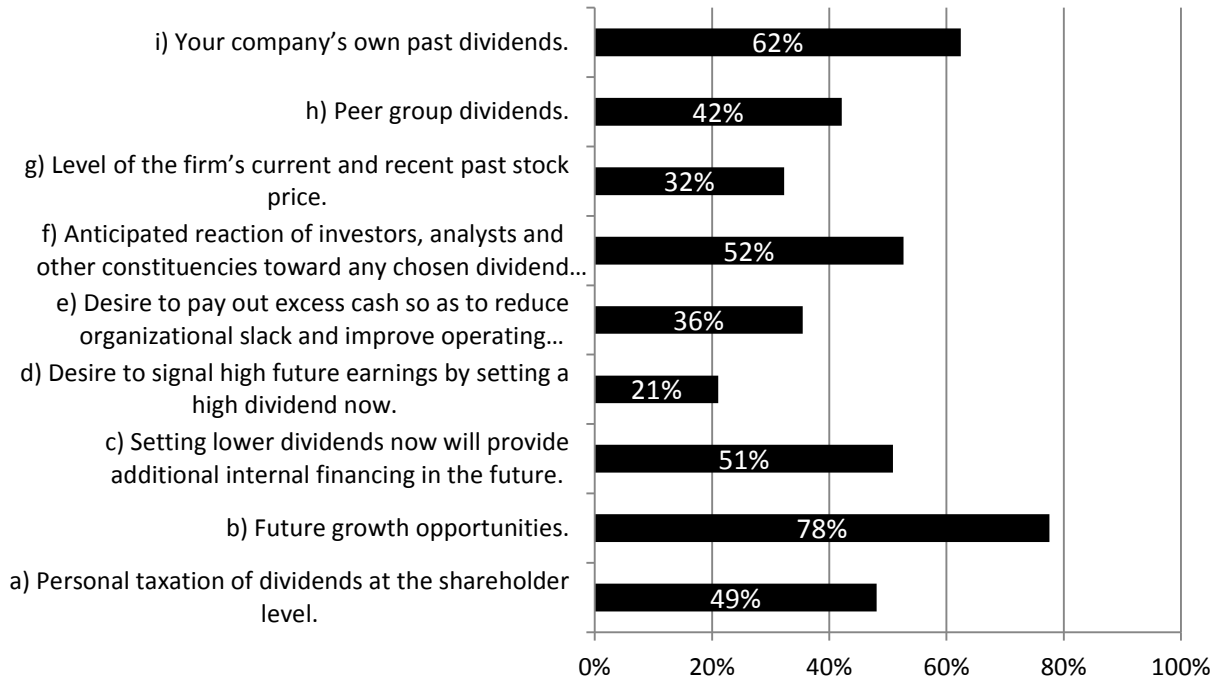


Figure 8: Dividend policy (Q. 22)
Percentage of 285 respondents identifying a factor affecting their firm's dividend policy in their top five factors



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APPENDIX

SURVEY ON KEY FACTORS DRIVING STRATEGIC MANAGERIAL DECISIONS

PART A: Respondent Information

1. First Name		
2. Last Name		
3. Position in Company		
4. Name of Company		
5. Enterprise	<input type="checkbox"/> Public	<input type="checkbox"/> Private
6. Ticker Symbol (if applicable)		
7. Is your company independent or a subsidiary/unit of another company?	<input type="checkbox"/> Independent	<input type="checkbox"/> Subsidiary/Unit
8. If your company is a subsidiary/unit of another company, please provide the name of the parent. (If not, skip)		
9. Primary Industry	<input type="checkbox"/> Agriculture, Forestry/Fishing <input type="checkbox"/> Mining <input type="checkbox"/> Construction <input type="checkbox"/> Manufacturing <input type="checkbox"/> Transportation <input type="checkbox"/> Wholesale/Distributors	<input type="checkbox"/> Retail <input type="checkbox"/> Finance, Insurance/Real Estate <input type="checkbox"/> Services <input type="checkbox"/> Public Admin <input type="checkbox"/> Not Classified
10. Total Net Sales (Please circle the range which includes your company's total net sales from the last fiscal year)	<input type="checkbox"/> <100K <input type="checkbox"/> \$100K-500K <input type="checkbox"/> \$500K-\$1M <input type="checkbox"/> \$1M-5M <input type="checkbox"/> \$5M-10M <input type="checkbox"/> \$10M-50M <input type="checkbox"/> \$50M-100M	<input type="checkbox"/> \$100M-250M <input type="checkbox"/> \$250M-500M <input type="checkbox"/> \$500M-1B <input type="checkbox"/> \$1B-5B <input type="checkbox"/> \$5B-10B <input type="checkbox"/> \$10B-50B <input type="checkbox"/> >\$50B
11. Total Number of Employees (please circle the range which includes the total number of employees at your company)	<input type="checkbox"/> <100 <input type="checkbox"/> 101-500 <input type="checkbox"/> 501-1,000 <input type="checkbox"/> 1,001-2,500 <input type="checkbox"/> 2,501-5,000 <input type="checkbox"/> 5,001-10,000	<input type="checkbox"/> 10,001-25,000 <input type="checkbox"/> 25,001-50,000 <input type="checkbox"/> 50,001-100,000 <input type="checkbox"/> 100,001-250,000 <input type="checkbox"/> 250,001-500,000 <input type="checkbox"/> 500,001

PART B: Company Goals

12. GIVEN BELOW ARE SEVEN POSSIBLE GOALS FOR A FIRM.

Please select from these seven goals the top five that are most important to your firm. Then, rank these top five goals from 1 to 5, where "1" is the most important goal and "5" is the fifth most important goal. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the goals that are not in your top five.

- a) Maximizing near-term shareholder value. _____
- b) Ensuring reliable growth and stability for all stakeholders. _____
- c) Maintaining/improving credit rating. _____
- d) Maintaining/improving the company's brand image. _____
- e) Be recognized as a highly desirable place to work. _____
- f) Increasing market share. _____
- g) Preserving an optimal degree of decision-making flexibility/freedom/autonomy without being restricted by investors or creditors. _____

Explain your answers below if necessary. Also, if you believe that one key goal is missing from above, please state it below and include what rank from 1 to 5 you would assign it. The rank assigned to this goal should not be assigned to any goal above.

13. GIVEN BELOW ARE TEN FACTORS THAT MAY BE IMPORTANT IN DETERMINING A FIRM'S ABILITY TO COPE WITH OR TAKE ADVANTAGE OF UNEXPECTED CHANGES IN THE ENVIRONMENT AND MAKE DECISIONS THAT ACHIEVE THESE GOALS.

Please select from these ten factors the top five that are most important to your firm. Then, rank these top five factors from 1 to 5, where "1" is the most important factor and "5" is the fifth most important factor. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the factors that are not in your top five.

- a) Level of debt relative to equity in existing capital structure. _____
- b) Past financial performance (operating performance and/or net profits). _____
- c) Market share and other aspects of competitive position. _____
- d) Having large institutional investors as shareholders. _____
- e) Ownership concentration. _____
- f) Cash accumulated within the firm. _____
- g) Stock price higher over the past few months. _____
- h) The Board shares management's vision and strategy. _____
- i) Major investors share management's vision and strategy. _____
- j) Key employees share management's vision and strategy. _____

Explain your answers below if necessary. Also, if you believe that one key factor is missing from above, please state it below and include what rank from 1 to 5 you would assign it. The rank assigned to this factor should not be assigned to any factor above.

PART C: Decision Endorsement

14. GIVEN BELOW ARE SIX STAKEHOLDERS WHOSE ENDORSEMENT MAY BE IMPORTANT WHEN A MAJOR DECISION—SUCH AS AN ACQUISITION, A MAJOR INVESTMENT, A NEW PRODUCT INTRODUCTION, OR A CHANGE IN CAPITAL STRUCTURE—IS MADE.

Please select from these six stakeholders the top five that are most important to your firm. Then, rank these top five stakeholders from 1 to 5, where “1” is the stakeholder whose endorsement you believe is most important and “5” is the stakeholder whose endorsement you believe is least important. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the stakeholder who is not in your top five.

- a) Major shareholders/investors. _____
- b) Banks and other creditors. _____
- c) Board of Directors. _____
- d) Security analysts in the stock market. _____
- e) Key employees. _____
- f) Customers and/or potential customers. _____

Explain your answers below if necessary. Also, if you believe that one key stakeholder is missing from above, please state that stakeholder below and include what rank from 1 to 5 you would assign to that stakeholder. The rank assigned to this stakeholder should not be assigned to any stakeholder above.

15. GIVEN BELOW ARE SIX STAKEHOLDERS WHO MAY HAVE HAD AN IMPORTANT EFFECT ON DECISIONS IN YOUR FIRM THAT ULTIMATELY WERE POSTPONED, MODIFIED, REVERSED OR CHANGED BECAUSE SOME OF THOSE SAME STAKEHOLDERS DID NOT ORIGINALLY ENDORSE THEM.

Please select from these six stakeholders the top five who had an important effect on the changed decisions in your firm. Then, rank these top five stakeholders from 1 to 5, where “1” is the stakeholder who had the most important effect on the changed decisions in your firm and “5” is the stakeholder who had the least important effect on the changed decisions in your firm. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the stakeholder who is not in your top five.

- a) Major shareholders/investors. _____
- b) Banks and other creditors. _____
- c) Board of Directors. _____
- d) Security analysts in the stock market. _____
- e) Key employees. _____
- f) Customers and/or potential customers. _____

Explain your answers below if necessary. Also, if you believe that one key stakeholder is missing from above, please state that stakeholder below and include what rank from 1 to 5 you would assign to that stakeholder. The rank assigned to this stakeholder should not be assigned to any stakeholder above.

16. GIVEN BELOW ARE FIVE FACTORS THAT MAY BE RESPONSIBLE FOR A KEY MANAGEMENT DECISION IN YOUR FIRM NOT BEING ENDORSED BY OUTSIDERS (E.G. SHAREHOLDERS/LENDERS/ANALYSTS) OR BY THE BOARD OF DIRECTORS.

For your firm, please rank these five factors from 1 to 5, where "1" is the factor that you believe would be most responsible and "5" is the factor that you believe would be least responsible. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once.

- a) Management has access to superior information but this information is difficult to communicate to key stakeholders, including investors. _____
- b) Management and key stakeholders have access to the same information but interpret it differently in terms of the optimal decision it implies. _____
- c) Management has different objectives from other key stakeholders. _____
- d) There is a lack of consensus among the Board of Directors. _____
- e) Poor past performance of the firm. _____

Explain your answers below if necessary. Also, if you believe that one key factor is missing from above, please state it below and include what rank from 1 to 5 you would assign it. The rank assigned to this factor should not be assigned to any factor above.

17. GIVEN BELOW ARE NINE ACTIONS THAT MAY BE IMPORTANT TO HELP ENSURE THAT SHAREHOLDERS, LENDERS, KEY EMPLOYEES, AND THE BOARD OF DIRECTORS ENDORSE MAJOR DECISIONS.

Please select from these nine actions the top five that are most important to your firm. Then, rank these top five actions from 1 to 5, where "1" is the most important action to ensure endorsement and "5" is the fifth most important action to ensure endorsement. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the actions that are not in your top five.

- a) Improving the quality of investor relations maintained by the firm. _____
- b) Using dividend policy as a facilitator of alignment and endorsement. _____
- c) Choosing judiciously what securities to issue (debt, equity, etc.). _____
- d) Ensuring that senior management is in place that has the confidence of investors, directors and other constituencies. _____
- e) Maintaining a high level of informational transparency regarding the firm and its decisions. _____
- f) Striving to improve accountability. _____
- g) Having consistent financial performance (operating performance and/or net profits). _____
- h) Communicating clearly the company strategy to key employees and other stakeholders. _____
- i) Laying the groundwork with the Board ahead of time to facilitate alignment/agreement between management and the Board. _____

Explain your answers below if necessary. Also, if you believe that one key action is missing from above, please state it below and include what rank from 1 to 5 you would assign to that stakeholder. The rank assigned to this action should not be assigned to any action above.

PART D: Financial Policy

18. Has your firm ever seriously considered raising external capital (common stock or bonds)? If "No," please skip to Question 20.

Yes

No

Explain your answer below if necessary.

19. GIVEN BELOW ARE FIFTEEN FACTORS THAT MAY BE IMPORTANT IN A FIRM'S DECISION TO RAISE EXTERNAL CAPITAL (COMMON STOCK OR BONDS).

Please select from these fifteen factors the top five that are most important to your firm. Then, rank these top five factors from 1 to 5, where "1" is the most important factor and "5" is the fifth most important factor. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the factors that are not in your top five.

- a) How the security issued will affect our capital structure relative to our long-term target. _____
- b) Earnings per share dilution. _____
- c) Whether profits have been sufficient to internally fund the firm's activities without raising external capital. _____
- d) Our past financial performance (operating profits and/or net profits). _____
- e) The stock price has risen recently (past 1-2 months) and the price at which stock can be issued is attractive. _____
- f) The stock price has been consistently high for some time (6 months or longer). _____
- g) The firm's equity was overvalued or undervalued in the market. _____
- h) The tax advantage of debt; i.e., debt generates tax savings. _____
- i) Anticipated reaction of creditors to the security issued in terms of an easing or tightening of future loans and/or bond covenants. _____
- j) Anticipated impact of the security issued on the bond rating. _____
- k) Our debt service capacity. _____
- l) Our overall corporate strategy and whether the security issued will facilitate or impede management's flexibility/freedom/ability to execute the strategy. _____
- m) Our expectation of our future cash flows. _____
- n) The difference between debt and equity in terms of the strategic and operating flexibility each provides management. _____
- o) The decision can be easily explained to shareholders (e.g. dilution impact) or bondholders (e.g. credit risk impact). _____

Explain your answers below if necessary. Also, if you believe that one key factor is missing from above, please state it below and include what rank from 1 to 5 you would assign it. The rank assigned to this factor should not be assigned to any factor above.

20. Has your firm ever seriously considered acquiring another firm? If "No," please skip to Question 22.

Yes

No

Explain your answer below if necessary.

21. GIVEN BELOW ARE ELEVEN FACTORS THAT MAY BE IMPORTANT IN A FIRM'S DECISION TO ACQUIRE ANOTHER FIRM.

Please select from these eleven factors the top five that are most important to your firm when it is considering an acquisition. Then, rank these top five factors from 1 to 5, where "1" is the most important factor and "5" is the fifth most important factor. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the factors that are not in your top five.

- a) Endorsement by shareholders/major investors. _____
- b) Endorsement by lenders. _____
- c) Endorsement by the Board of Directors. _____
- d) Your estimate of the profitability of the acquisition or investment. _____
- e) Your current stock price. _____
- f) The target's current stock price. _____
- g) Your perception of how the stock market will react to your decision. _____
- h) Cultural compatibility of your firm with the target. _____
- i) Product market synergies. _____
- j) Competitive reasons. _____
- k) Cost savings. _____

Explain your answers below if necessary. Also, if you believe that one key factor is missing from above, please state it below and include what rank from 1 to 5 you would assign it. The rank assigned to this factor should not be assigned to any factor above.

22. GIVEN BELOW NINE FACTORS THAT MAY BE IMPORTANT IN YOUR DIVIDEND POLICY DECISION.

Please select from these nine factors the top five that are most important to your firm. Then, rank these top five factors from 1 to 5, where "1" is the most important factor and "5" is the fifth most important factor. Write in your rankings below using the numbers from 1 to 5. Each number can only be used once. Ignore the factors that are not in your top five.

- a) Personal taxation of dividends at the shareholder level. _____
- b) Future growth opportunities. _____
- c) Expectation that future financing may be needed but may be difficult to obtain externally, so that setting lower dividends now will provide additional internal financing in the future. _____
- d) Desire to signal high future earnings by setting a high dividend now. _____
- e) Desire to pay out excess cash so as to reduce organizational slack and improve operating efficiency. _____
- f) Anticipated reaction of investors, analysts and other constituencies toward any chosen dividend policy. _____
- g) Level of the firm's current and recent past stock price. _____
- h) Peer group dividends. _____
- i) Your company's own past dividends. _____

Explain your answers below if necessary. Also, if you believe that one key factor is missing from above, please state it below and include what rank from 1 to 5 you would assign it. The rank assigned to this factor should not be assigned to any factor above.

23. Does your firm have a target debt-equity ratio? If "No," please skip to Question 27.

- Yes No

Explain your answer below if necessary.

24. GIVEN BELOW ARE THREE STATEMENTS ABOUT YOUR DEBT-EQUITY RATIO.

Please indicate how applicable each statement is to your firm by choosing for each statement a number from 1 to 5, where "1" means the statement is very applicable and "5" means the statement is not applicable at all. If you do not know the answer to a statement, please select "Do Not Know." Please note that you are NOT ranking here, but merely indicating the applicability of each statement to your firm.

- a) We have a fixed target debt-equity ratio (e.g. 1.0) that has been formalized for decisions and internal communication.
- | | | | | | |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> |
| Very
Applicable | | | | Not Applicable
at All | Do Not
Know |
- b) Our target level is tied to our peers' debt-equity ratio or is aimed at being similar to other firms in the industry.
- | | | | | | |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> |
| Very
Applicable | | | | Not Applicable
at All | Do Not
Know |
- c) We do not have a fixed target, but our debt-equity ratio lies in a range that depends on our past stock performance.
- | | | | | | |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> |
| Very
Applicable | | | | Not Applicable
at All | Do Not
Know |

Explain your answers below if necessary.

25. Do you attempt to maintain a target debt-equity ratio in (choose one)?

- Book value terms Market value terms

Explain your answer below if necessary.

26. Do you adjust your debt-equity ratio when your stock price changes?

Yes

No

Explain your answer below if necessary.

27. GIVEN BELOW ARE TWELVE FACTORS THAT MAY INCREASE OR DECREASE YOUR ABILITY TO RESPOND TO UNEXPECTED CHANGES IN THE ECONOMIC ENVIRONMENT AND CHOOSE ACTIONS (E.G. MAKE INVESTMENT DECISIONS, CHOOSE PRODUCT AND MARKET PENETRATION STRATEGIES, MAKE ACQUISITION DECISIONS, ETC.) THAT YOU BELIEVE ARE BEST FOR YOUR FIRM.

Please indicate how each factor below impacts your ability to respond to unexpected changes by choosing for each factor a number from 1 to 5, where "1" means the factor increases your ability to respond by a lot, "3" means the factor does not change your ability to respond, and "5" means the factor decreases your ability to respond by a lot. If you do not know the answer to a statement, please select "Do Not Know." Please note that you are NOT ranking here, but merely indicating how each factor impacts your ability to respond.

a) High fraction of debt in existing capital structure.

1

Increases
by a lot

2

3

Does not
change

4

5

Decreases
by a lot

Do Not
Know

b) Issuing equity to finance investments.

1

Increases
by a lot

2

3

Does not
change

4

5

Decreases
by a lot

Do Not
Know

c) Issuing debt to finance investments.

1

Increases
by a lot

2

3

Does not
change

4

5

Decreases
by a lot

Do Not
Know

d) Good past financial performance (operating performance and/or net profits).

1

Increases
by a lot

2

3

Does not
change

4

5

Decreases
by a lot

Do Not
Know

e) Cash accumulated within the firm.

1

Increases
by a lot

2

3

Does not
change

4

5

Decreases
by a lot

Do Not
Know

f) High stock price over the past 1-2 months.

1

Increases
by a lot

2

3

Does not
change

4

5

Decreases
by a lot

Do Not
Know

(continued on next page)

- g) High stock price over the past 6 months or longer.
- 1 2 3 4 5 Do Not Know
- Increases by a lot Does not change Decreases by a lot
- h) The Board shares management's vision and strategy.
- 1 2 3 4 5 Do Not Know
- Increases by a lot Does not change Decreases by a lot
- i) Major investors share management's vision and strategy.
- 1 2 3 4 5 Do Not Know
- Increases by a lot Does not change Decreases by a lot
- j) Ownership of the firm's stock is concentrated in the hands of a few large shareholders.
- 1 2 3 4 5 Do Not Know
- Increases by a lot Does not change Decreases by a lot
- k) Having institutional investors as shareholders.
- 1 2 3 4 5 Do Not Know
- Increases by a lot Does not change Decreases by a lot
- l) A strong competitive position.
- 1 2 3 4 5 Do Not Know
- Increases by a lot Does not change Decreases by a lot

Explain your answers below if necessary. Also, if you believe that one key factor is missing from above, please state it below and include what rating from 1 to 5 you would assign it.

28. In the space below, please indicate which factor has gained the most in importance in the past 5-10 years in affecting your ability to respond to changes in the economic environment. Please feel free to also provide any other comments you might have.

Thank You