Two parts:

- Satisficing
- Berle-Means

do firms max π?

- we assume you pursue your own goals: you goal is not to make money for your employer, it's to make a career for yourself. yes, you'll do a decent job. but you won't work for free, which would certainly enhance employer profitability!!
- so you climb the ladder, and make CEO. at that point do you change your stripes, and work for free?
    - or do you manipulate strategy to meet share price goals? surely not!
- satisfice is thus a better model: firms try to meet minimal targets, and divert anything beyond that.
    - goal: achieve $\pi \geq$ threshold, NOT max π

so why not model that way

- complex
- qualitative results seem similar: if costs rise, then cut output / raise price.
    - so where's the gain from a more realistic model?

goal of firm: shareholder value?

- claim: ideology not economics
- what have shareholders done for you?
    - not source corporate finance
    - a nuisance – annual meetings, reports, shareholder votes.
    - don't play active role – management nominates directors, decides on returns and their timing
- legal issue: firms have a web of legal obligations
    - employees, suppliers, bondholders & banks, even customers
    - environmental standards, impact on communities etc – some binding, some not

what do shareholders do?

- (Adolf) Berle - (Gardiner) Means: rise of managerial corporation → shareholding dispersed
    - so shareholders provide no check on mgt
        - 1932 *The Modern Corporation and Private Property*
    - only real choice is to sell, no voice Albert Hirschman: Exit, Voice and Loyalty (1970)
- subsequent empirical world backed up their claims, indeed strengthened them
    - Eric Hilt (2014). History of American Corporate Governance: Law, Institutions, and Politics. NBER Working Paper No. 20356.
    - examined records for companies before general incorporation law, where Boards of Directors were comprised of major shareholders. in fact, they exercised surprisingly little due diligence.
        - data on NYSE in 1820s; BostonSE in 1870s and NYSE railroads in 1910s. all before general Federal incorporation system, hence state by state.

1. dispersed ownership → managers run, for themselves
2. skewed control: insiders and outsiders (minority interests) where insider directors run for themselves
3. states behaving opportunistically to potentially expropriate or control gains

performance of LBOs suggests major tensions persist.

- may not be so bad for those who sell out
- but final denoument is often horrible, cf. Sears and ToysRUs, so other stakeholders suffer
- confidential story that Cerberus bought Chrysler with money of others, stopped new product development to line their pockets even though it would destroy Chrysler and ultimately lose money for their clients