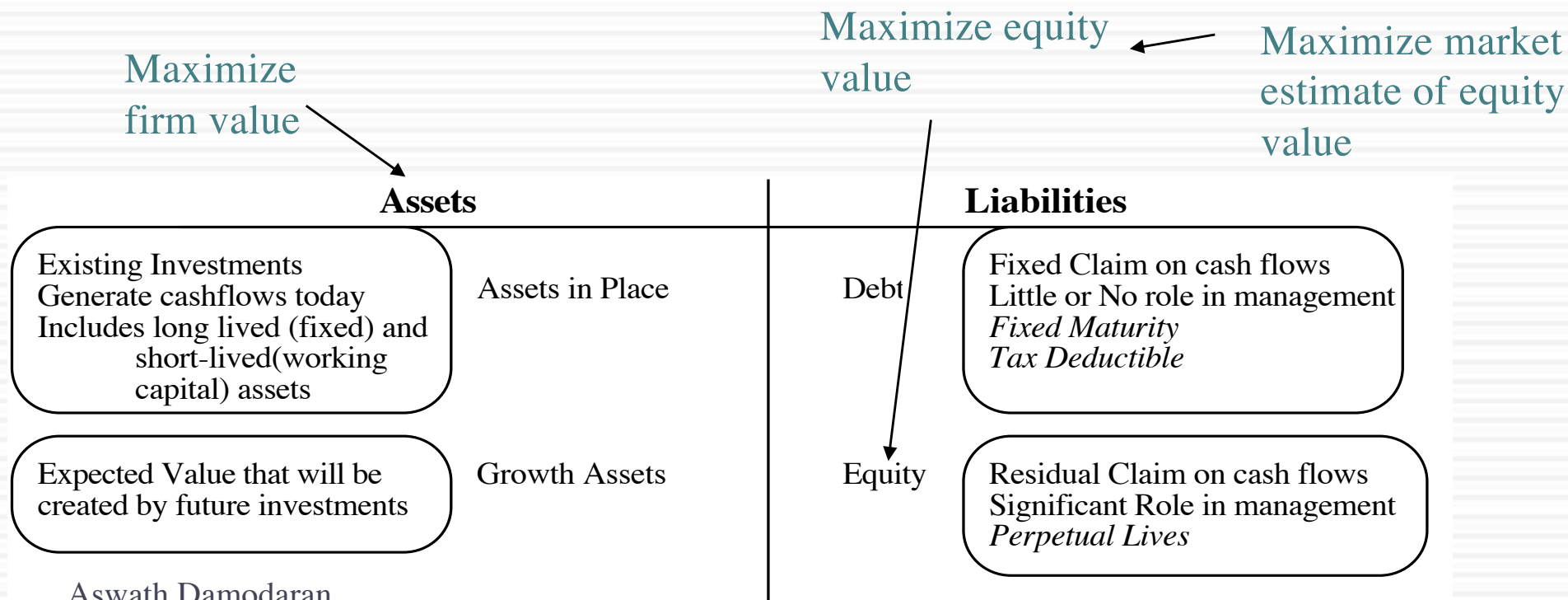
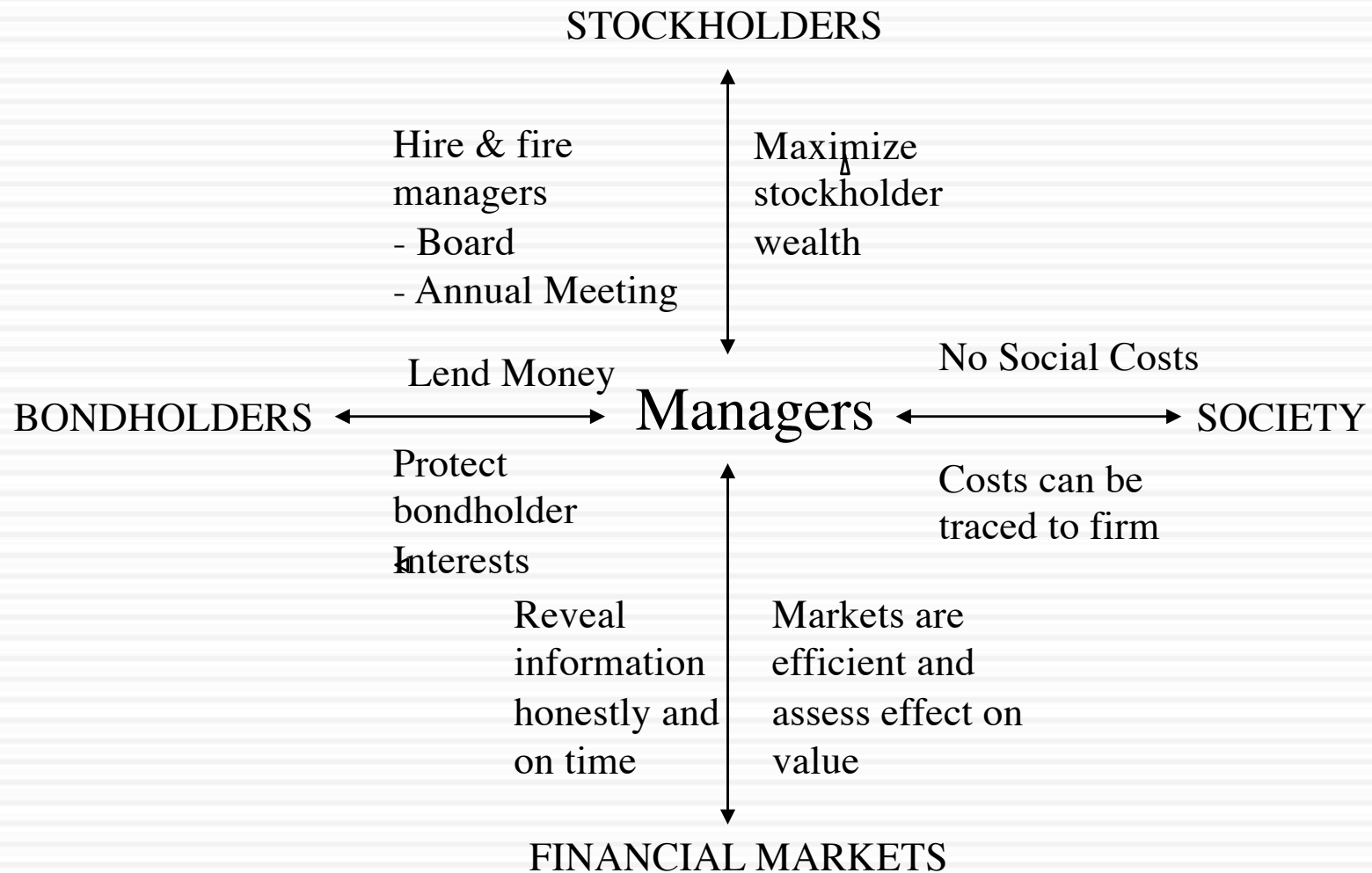


# The Objective in Decision Making

- In traditional corporate finance, the objective in decision making is to maximize the value of the firm.
- A narrower objective is to maximize stockholder wealth. When the stock is traded and markets are viewed to be efficient, the objective is to maximize the stock price.



# The Classical Objective Function



# What can go wrong?



# Who's on Board? The Disney Experience - 1997

**Reveta F. Bowers 1,5**  
Head of School  
Center for Early Education

**Roy E. Disney 3**  
Vice Chairman  
The Walt Disney Company

**Michael D. Eisner 3**  
Chairman and Chief Executive Officer  
The Walt Disney Company

**Stanley P. Gold 4,5**  
President and Chief Executive Officer  
Shamrock Holdings, Inc.

**Sanford M. Litvack**  
Senior Executive Vice President  
and Chief of Corporate Operations  
The Walt Disney Company

**Ignacio E. Lozano, Jr. 1,2,4**  
Editor-in-Chief, LA OPINION

**George J. Mitchell 5**  
Special Counsel  
Verner, Lipfert, Bernard, McPherson  
and Hand

**Thomas S. Murphy**  
Former Chairman  
Capital Cities/ABC, Inc.

**Richard A. Nunis**  
Chairman  
Walt Disney Attractions

**Leo J. O'Donovan, S.J.**  
President  
Georgetown University

**Michael S. Ovitz 3**  
President  
The Walt Disney Company

**Sidney Poitier 2,4**  
Chief Executive Officer  
Verdon-Cedric Productions

**Irwin E. Russell 2,4**  
Attorney at Law

**Robert A.M. Stern**  
Senior Partner Productions

**E. Cardon Walker 1**  
Former Chairman and Chief Executive Officer  
The Walt Disney Company

**Raymond L. Watson 1,2,3**  
Vice Chairman  
The Irvine Company

**Gary L. Wilson 5**  
Co-Chairman  
Northwest Airlines Corporation

1 Member of Audit Review Committee

2 Member of Compensation Committee

3 Member of Executive Committee

4 Member of Executive Performance Plan Committee

5 Member of Nominating Committee

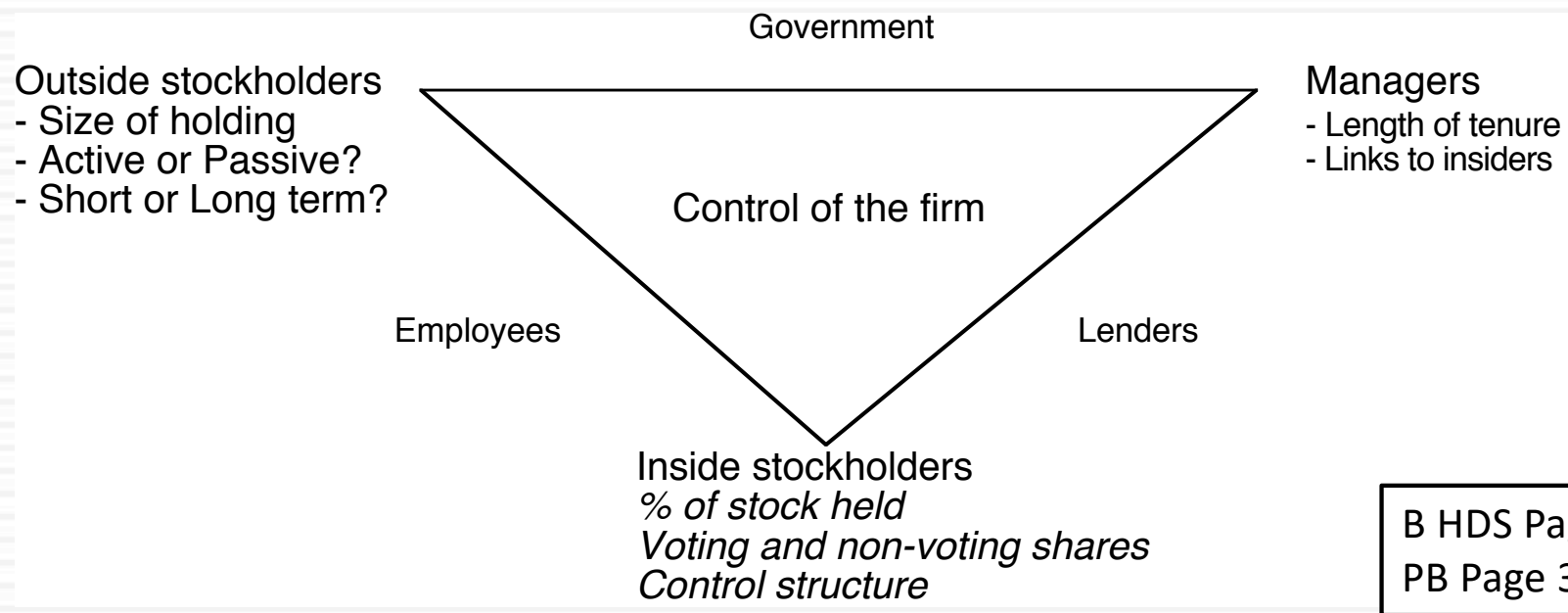
# So, what next? When the cat is idle, the mice will play ....

- When managers do not fear stockholders, they will often put their interests over stockholder interests
  - Greenmail: The (managers of ) target of a hostile takeover buy out the potential acquirer's existing stake, at a price much greater than the price paid by the raider, in return for the signing of a 'standstill' agreement.
  - Golden Parachutes: Provisions in employment contracts, that allows for the payment of a lump-sum or cash flows over a period, if managers covered by these contracts lose their jobs in a takeover.
  - Poison Pills: A security, the rights or cashflows on which are triggered by an outside event, generally a hostile takeover, is called a poison pill.
  - Shark Repellents: Anti-takeover amendments are also aimed at dissuading hostile takeovers, but differ on one very important count. They require the assent of stockholders to be instituted.
  - Overpaying on takeovers: Acquisitions often are driven by management interests rather than stockholder interests.

No stockholder approval needed..... Stockholder Approval needed

# ⌚ Application Test: Who owns/runs your firm?

- Look at: Bloomberg printout HDS for your firm
- Who are the top stockholders in your firm?
- What are the potential conflicts of interests that you see emerging from this stockholding structure?



# Case 1: Splintering of Stockholders

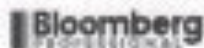
## Disney's top stockholders in 2003

<HELP> for explanation. dgp Equity HDS  
 Enter #<GD> to select aggregate portfolio and see detailed information

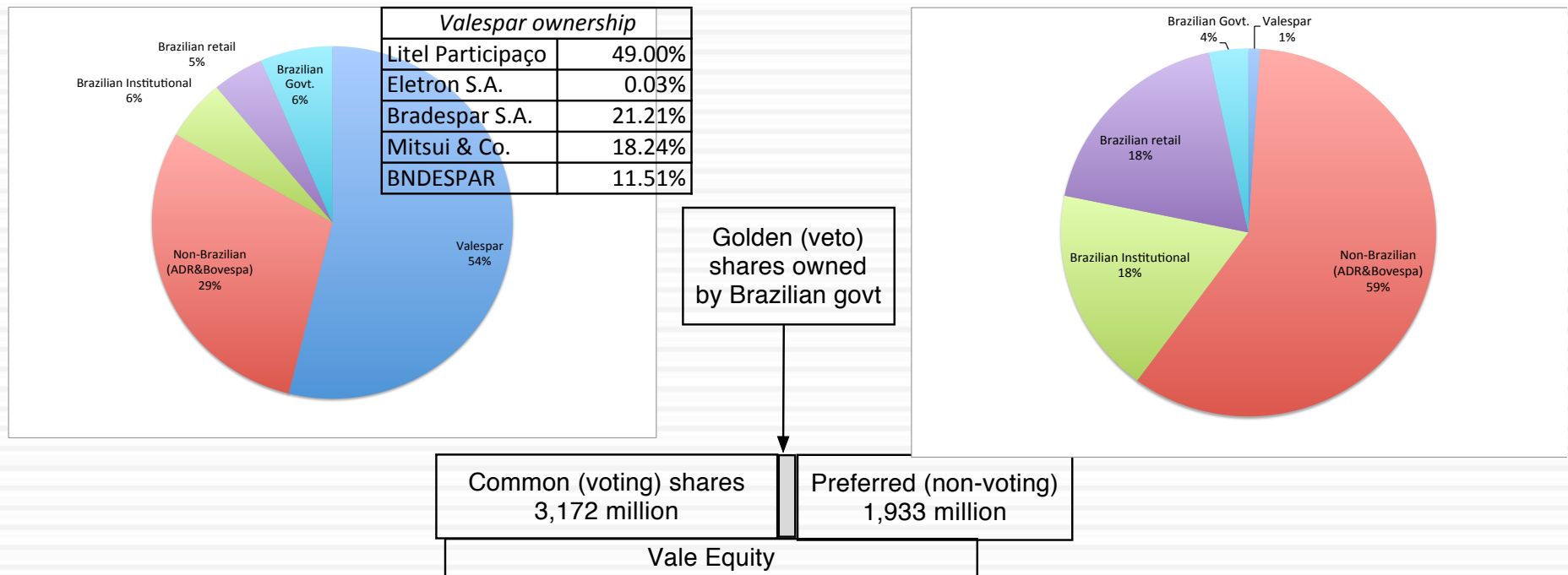
001189658224-000		HOLDINGS SEARCH		CUSIP 25468710	
DIS	US	DISNEY (WALT) CO		Page 1 / 100	
Holder name	Portfolio Name	Source	Held	Percent	Latest Filing
				Outstd	Change Date
1BARCLAYS GLOBAL	BARCLAYS BANK PLC	13F	83,630M	4.095	1,750M 09/02
2CITIGROUP INC	CITIGROUP INCORPORAT	13F	62,857M	3.078	4,811M 09/02
3FIDELITY MANAGEM	FIDELITY MANAGEMENT	13F	56,125M	2.748	5,992M 09/02
4STATE STREET	STATE STREET CORPORA	13F	54,635M	2.675	2,239M 09/02
5SOUTHEASTRN ASST	SOUTHEASTERN ASSET M	13F	47,333M	2.318	14,604M 09/02
6ST FARM MU AUTO	STATE FARM MUTUAL AU	13F	41,938M	2.054	120,599 09/02
7VANGUARD GROUP	VANGUARD GROUP INC	13F	34,721M	1.700	-83,839 09/02
8MELLON BANK N A	MELLON BANK CORP	13F	32,693M	1.601	957,489 09/02
9PUTNAM INVEST	PUTNAM INVESTMENT MA	13F	28,153M	1.379	-11,468M 09/02
10LORD ABBETT & CO	LORD ABBETT & CO	13F	24,541M	1.202	5,385M 09/02
11MONTAG CALDWELL	MONTAG & CALDWELL IN	13F	24,466M	1.198	-11,373M 09/02
12DEUTSCHE BANK AK	DEUTSCHE BANK AG	13F	23,239M	1.138	-5,002M 09/02
13MORGAN STANLEY	MORGAN STANLEY	13F	19,655M	0.962	3,482M 09/02
14PRICE T ROWE	T ROWE PRICE ASSOCIA	13F	19,133M	0.937	2,925M 09/02
15ROY EDWARD DISNE	n/a	PROXY	17,547M	0.859	-126,710 12/01
16AXA FINANCIAL	ALLIANCE CAPITAL MAN	13F	14,283M	0.699	69,353 09/02
17JP MORGAN CHASE	JP MORGAN CHASE & CO	13F	14,209M	0.696	-462,791 09/02
Sub-totals for current page:			599,159M	29.340	

\* Honey market directory info available. Select portfolio, then hit IP<GD>.

Australia 61 2 8777 8400 Brazil 5511 2048 4500 Europe 44 20 7330 7500 Germany 49 69 909410  
 Hong Kong 852 2577 6900 Japan 81 3 3201 8900 Singapore 65 212 1800 U.S. 1 212 318 2000 Copyright 2002 Bloomberg L.P.  
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# Case 2: Voting versus Non-voting Shares & Golden Shares: Vale



Vale has eleven members on its board of directors, ten of whom were nominated by Valepar and the board was chaired by Don Conrado, the CEO of Valepar.



# Case 3: Cross and Pyramid Holdings

## Tata Motor's top stockholders in 2013

TTMT IN Equity      25) Settings      99) Feedback      Holdings: Current

Tata Motors Ltd      ISIN INE155A01022

1) Current    2) Historical    3) Matrix    4) Ownership    5) Transactions    6) Options

Search Name    --      21) Save    22) Delete    3) Saved Search    24) Refine Search

Text Search    Holder Group    All Holders    20) Export

Holder Name	Portfolio Name	Source	Opt	Amt Held	% Out	Latest Chg	File Dt
		All Sources	All				
1. TATA SONS LTD	n/a	Co File		702,333,345	26.07	0	09/30/13
2. CITIBANK NA	n/a	20F		446,246,135	16.56	0	06/30/12
3. LIFE INSURANCE CORP OF I	n/a	Co File		168,754,477	6.26	-119,728,333	09/30/13
4. TATA STEEL LTD	n/a	Co File		147,810,695	5.49	0	09/30/13
5. CAPITAL GROUP COMPANIES	n/a	ULT-AGG		97,689,911	3.63	-877,871	09/30/13
6. TATA INDUSTPIES LTD	n/a	Co File		68,436,485	2.54	0	09/30/13
7. VANGUARD GROUP INC	n/a	ULT-AGG		41,285,983	1.53	4,535,434	09/30/13
8. PRUDENTIAL PLC	n/a	ULT-AGG		34,080,063	1.26	147,814	09/30/13
9. GIC PRIVATE LIMITED	n/a	ULT-AGG		30,428,428	1.13	0	09/30/13
10. WILLIAM BLAIR & COMPANY	WILLIAM BLAIR & COMP	13F		30,093,943	1.12	3,997,149	06/30/13
11. JPMORGAN CHASE & CO	n/a	ULT-AGG		24,918,852	0.92	-2,157,750	08/31/13
12. SCHRODER INVESTMENT MGMT	Multiple Portfolios	MF-AGG		19,136,665	0.71	2,578,904	06/30/13
13. BLACKROCK	n/a	ULT-AGG		14,100,725	0.52	-265,173	10/31/13
14. NORGES BANK	Multiple Portfolios	MF-AGG		10,762,579	0.40	0	12/31/12
15. T ROWE PRICE ASSOCIATES	Multiple Portfolios	MF-AGG		10,056,366	0.37	324,353	09/30/13
16. TATA INVESTMENT COPP LTD	n/a	Co File		10,025,000	0.37	0	09/30/13
17. SBI LIFE INSURANCE CO LTD	Multiple Portfolios	MF-AGG		9,256,170	0.34	-151,323	09/30/13
18. ALLIANZ ASSET MANAGEMENT	n/a	ULT-AGG		8,129,923	0.30	2,071,551	09/30/13

% Out    76.19      Zoom    -    +    100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900      Singapore 65 6212 1000      U.S. 1 212 318 2000      Copyright 2013 Bloomberg Finance L.P.  
 SN 636136 EST    GMT-5:00 G627-2830-0 04-Nov-2013 12:31:34

# Case 4: Legal rights and Corporate Structures: Baidu

- The Board: The company has six directors, one of whom is Robin Li, who is the founder/CEO of Baidu. Mr. Li also owns a majority stake of Class B shares, which have ten times the voting rights of Class A shares, granting him effective control of the company.
- The structure: Baidu is a Chinese company, but it is incorporated in the Cayman Islands, its primary stock listing is on the NASDAQ and the listed company is structured as a shell company, to get around Chinese government restrictions of foreign investors holding shares in Chinese corporations.
- The legal system: Baidu's operating counterpart in China is structured as a Variable Interest Entity (VIE), and it is unclear how much legal power the shareholders in the shell company have to enforce changes at the VIE.

# Things change.. Disney's top stockholders in 2009

**DIS** US \$ ↑ **24.2422** +.7422 D 2s EquityHDS  
 DELAY 14:27 Vol 6,135,972 Op 23.81 Z Hi 24.34 T Lo 23.8 T ValTrd 148.014m

DIS US Equity 95) Saved Searches 96) Default Settings Page 1/150 Holdings Search  
 Walt Disney Co/The CUSIP 25468710

21) Sources 22) Types 23) Countries 24) Metro Areas 25) Advanced Filters  
 Name Filter Sort By Mkt Val

	Holder Name	Portfolio Name	Source	Mkt Val	% Out	Mkt Val Chg	File Dt
1)	JOBS STEVEN PAUL	n/a	Form 4	3.34BLN	7.46	0	5/5/06
2)	FIDELITY MANAGEMENT &	FIDELITY MANAGEMEN	13F	2.05BLN	4.58	-36.12MLN	9/30/08
3)	STATE STREET CORP	STATE STREET CORPO	13F	1.7BLN	3.79	-18.6MLN	9/30/08
4)	BARCLAYS GLOBAL INVES	BARCLAYS GLOBAL IN	13F	1.66BLN	3.70	-160.12MLN	9/30/08
5)	VANGUARD GROUP INC	VANGUARD GROUP IN	13F	1.38BLN	3.08	-6.82MLN	9/30/08
6)	SOUTHEASTERN ASSET M	SOUTHEASTERN ASSE	13F	1.12BLN	2.50	-14.03MLN	9/30/08
7)	STATE FARM MUTUAL AU	STATE FARM MUTUAL	13F	1.02BLN	2.28	0	9/30/08
8)	WELLINGTON MANAGEMEN	WELLINGTON MANAGE	13F	939.38MLN	2.09	110.6MLN	9/30/08
9)	CLEARBRIDGE ADVISORS	CLEARBRIDGE ADVISO	13F	815.91MLN	1.82	-47.04MLN	9/30/08
10)	JP MORGAN CHASE & CO	JP MORGAN CHASE &	13F	693.31MLN	1.55	-18.89MLN	9/30/08
11)	MASSACHUSETTS FINANCI	MASSACHUSETTS FINA	13F	682.16MLN	1.52	112.29MLN	9/30/08
12)	BANK OF NEW YORK MELL	BANK OF NEW YORK	13F	681.68MLN	1.52	-57.13MLN	9/30/08
13)	NORTHERN TRUST CORP	NORTHERN TRUST CO	13F	610.26MLN	1.36	-4.81MLN	9/30/08
14)	AXA	AXA	13F	486.28MLN	1.08	47.05MLN	9/30/08
15)	BLACKROCK INVESTMENT	BLACKROCK INVESTME	13F	476.12MLN	1.06	-47.11MLN	9/30/08
16)	JENNISON ASSOCIATES L	JENNISON ASSOCIATE	13F	428.85MLN	0.96	-102.77MLN	9/30/08
17)	T ROWE PRICE ASSOCIAT	T ROWE PRICE ASSOC	13F	351.61MLN	0.78	-9.94MLN	9/30/08

26) Latest Chg 27) Hist Held % Out on Page 41.12  
 Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
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# When traditional corporate financial theory breaks down, the solution is:

- To choose a different mechanism for corporate governance, i.e., assign the responsibility for monitoring managers to someone other than stockholders.
- To choose a different objective for the firm.
- To maximize stock price, but reduce the potential for conflict and breakdown:
  - ▣ Making managers (decision makers) and employees into stockholders
  - ▣ Protect lenders from expropriation
  - ▣ By providing information honestly and promptly to financial markets
  - ▣ Minimize social costs