The Corporate Goal Issue in the Post-Transition Economies and its Possible Implications for Financial Management

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ABSTRACT
After acknowledging the advantages of the shareholder wealth maximization objective, a sample of companies from four post-transition economies (Slovenia, Croatia, Serbia and Macedonia) is analyzed with regards to the extent to which this objective has been accepted by the company managers. The analysis is done as a survey of the data published in their websites and the results show that apart from the progress made in terms of transparency and corporate governance, the value maximization objective is only occasionally recognized as an ultimate corporate goal. Although there are differences among the countries, in general, the company managers seem to have not yet developed the sense of utmost accountability towards their shareholders. This situation is likely to have implications on the decision-making process, especially in the field of financial management, since many of its principles are based on value maximization as ultimate objective and its absence might cast doubt on the soundness of the decisions made under such circumstances. This is especially necessary to have in mind with regards to the capital structure, capital budgeting decisions, dividend policy and the most striking example is the portfolio management decisions made under the assumption of aligned interests between the managers and shareholders, when this is unlikely to be true.

KEYWORDS: *corporate governance, shareholder, stock market, value maximization.*

JEL CLASSIFICATION: *G11, G12, G31, G32.*

1. INTRODUCTION

The prevailing theory on financial management and the leading corporate finance textbooks widely accept the maximization of shareholders' wealth through the maximization of the value of a company as the ultimate goal of any company and the guiding principle of all managerial decisions (e.g. Damodaran, 2011; Ross, Jaffe and Westerfield, 2015; Ehrhardt and Brigham, 2017). Although the most influential alternative, the stakeholder welfare theory has gained a lot of attention in the last several decades through the popularization of the corporate social responsibility concept, it has been strongly criticized on several grounds. In the post-transition economies, the literature and education in finance have unanimously accepted the shareholder wealth objective function and the scholarly taught that develops in these countries is based on the same premise.

The problem that we want to study in this paper is the possible discrepancy between the theory (and education) and the practice in these countries. In other words, we raise the question: is the value maximization goal recognized and accepted by the companies, their management and managerial bodies? If not, what is the practical value of the decision-making

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principles developed by scholars using different points of departure? Are we teaching our students inadequate methods and techniques?
There are almost no studies dealing with the corporate objective in the post-transition economies (Mramor and Valentinčič, 2001; Stubelj et al., 2017). It seems that the scholars in these countries have commonly assumed the widespread acceptance of the western economic theory and practice. However, this must not be true. The author of this paper wants to question the attention the company managers in these countries pay to the performance of their shares on the stock market. This has even been publicly denied by some of them in certain occasions. They are rarely, if ever, compensated in the form of shares or stock options. In other words, their explicit and implicit dedication to work for the long-term benefit of the shareholders is disputable.

The goal of this paper is to shed more light on this issue. More specifically, it tries to explore to which extent the companies in some of the post-transition economies have adopted the value maximization objective, i.e. if their managers make the financial and other operating decisions having in mind their impact on the market value of the companies or are they focused on achieving other, short-term and narrower objectives. This is done through a survey of the companies' websites, implicitly deriving information related to the study. The annual reports of the companies are looked at in detail, the investor relations sections are analyzed and other relevant information is collected to obtain a picture of the managers' attitudes toward the long-term goal of their efforts.

The study covers the companies in four post-transition economies. On one hand, these four countries have a lot in common (they all have been a part of former Yugoslavia) and their economies have shared the same pattern of development for about 40 years, and on the other hand, nowadays they differ largely with regards to the level of development and the political environment they are a part of (two of the countries are members of the European Union (EU) and two of them are EU candidates). The reason for including companies from several countries was to obtain a conclusion if the companies differ with respect to their shareholder wealth-maximization attitudes by country and if these differences are related to any particular determinant.

The expected implications of the research are several. If the study shows that the value maximization objective is more a theoretical concept, rather than a real standard of behavior, many of the financial management models and criteria become of arguable applicability in these countries. In order to make textbooks more closely match reality, professors would probably need to make serious reconsiderations. The researchers in corporate finance would have to take the different fundamentals into account when performing research and deriving conclusions. Finally, it would raise the issue of the mere rationale of the operation of the stock markets in these countries eagerly striving to increase their turnover and enhance the level of market efficiency through the adoption of various regulatory mechanisms.

The paper is organized as follows. After the introduction, a brief review of the existing literature on the corporate objective function is presented in the second section. The third section clarifies the rationale of this research, i.e. the possible implications if the results of the study provide support for the thesis set at the beginning. The fourth section presents the methodology and the results of the study. The results and their implications are discussed in the fifth section, while the last section contains the conclusions and recommendations for further research.

2. LITERATURE REVIEW

In order to operate in a consistent and accountable manner, the company needs an ultimate objective, some kind of a light tower towards which all the various decisions would be focused. This issue becomes especially important with the separation of ownership and control in the joint-stock companies, where the managers do not necessarily share the same motivation with the company owners. A natural and righteous conclusion would be that those who have invested their money and taken the risk of losing them should be the ones to decide upon the destiny of the company, its direction and strategy. Therefore, the wealth of the shareholders, its preservation and maximization naturally arise as the ultimate goal of all the company operations. However, the functioning of the company inevitably affects the interests of other groups of economic agents, usually referred to as stakeholders. The stakeholder theory has emerged as a result, implying that the managers should take into account all these interests when making decisions. In addition, management literature and practice abound by a number of other choices declared as possible company goals: maximization of profits, maximization of operating income, revenue growth, survival and expansion of the company, etc. It is not our goal to delve deeper into the appropriateness of these options, so we shall restrict our discussion only to the survey of existing literature on this issue.

Michael Jensen specifies two issues that need to be resolved: "1) Should the firm have a single objective; and 2) Should that objective be value-maximization or something else?" (Jensen, 2002, p. 237). He opts for the single objective, because the existence of multiple objectives would inevitably lead to possible conflicts among them and it would be impossible to make decisions that would simultaneously satisfy all of them. On the other hand, Peter Drucker in his early days is a proponent of the multiobjective approach. "Objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business" (Drucker, 1954, p. 63). Drucker puts the customer in the focus of the company and the company operates not to maximize its profits, but to supply its customers. However, the responsibility of the manager to the owner of the business is to make profits and it is incompatible with the expanded managerial obligations (Friedman, 1970).

Overlooking this dilemma, the theorists have focused their attention on the single objective approach and the search for the optimal one. The debate was mostly divided between the value maximization objective (shareholder theory) and the maximization of benefits to all stakeholders (stakeholder theory). Although the company value maximization objective might seem easily appealing and undisputable, actually its rivalry with the stakeholder theory has lasted for more than a century (Sundaram and Inkpen, 2004). Most of the shareholder theory proponents distinguish its advantages over the stakeholder view in that it provides a single, clear, quantifiable managerial goal, which, if persistently followed, would provide maximum satisfaction to those who deserve it most – the equity investors. Shareholder value maximization creates higher incentives for the managers through the option-based bonuses and increases international competitiveness of the company (Höpner, 2001), the focus on shareholder wealth is necessary for the survival of the company in a competitive world (Brickley et al., 2002). Sundaram and Inkpen (2004), after a thorough review of the arguments of both theories, strongly support the shareholder-based objective which is the only objective compatible with the market mechanism, impulses and imperatives of the democratic-capitalist societies.

The stakeholder theory has been defended on different grounds. Although it has been present in the practice much longer, researchers usually link the theoretical fundaments of the stakeholder theory to the works of Freeman (1984). Donaldson and Preston (1995) assert that the basis for the justification of the stakeholder theory should be sought in the normative area, i.e. what makes the theory valid is its foundation on ethical grounds, according to which, the company *must* take into account the interests of various stakeholders, simply because it is unethical to ignore them. After the abovementioned focus on the customer, in his view on the future of the business at the turn of the century, Drucker (2001) supports the stakeholder theory with the claim that the company of the future will have to take into account the interests of the corporation's various constituencies: customers, shareholders (especially institutional investors and pension funds), knowledge employees and communities.

Some have argued in favor of its financial implications for the company (Freeman, 1984; Berrone, Surroca and Tribo, 2007), but in other cases, researchers have come up with opposite conclusions (Surroca, Tribo, Waddock, 2010). The corporate scandals of 2000-2001 gave new ground to the stakeholder view, since shareholders' greed and the associated managerial short-term incentives had been blamed for most of the corporate governance problems (Bratton, 2002). Other authors link the benefits from orientation toward the stakeholders to the creation of competitive advantage for the companies (Altman, 1998; Harrison, Bosse and Phillips, 2010), or the stakeholder governance model is considered superior to shareholder value maximization in the case of crisis management (Alpaslan, Green and Mitroff, 2009).

The stakeholder theory has been attacked by the opponents for various reasons. Ironically, the mere foundation of the stakeholder theory, i.e. the view that different stakeholders' interests should be taken into account generates one of its greatest weaknesses: there is no clear-cut definition as to which stakeholders should be considered important and there is no established criterion to decide on the relative importance of the various relevant groups. When talking about stakeholders, proponents usually have in mind those who might have interest in the progress of the company, but we must bear in mind that there are groups such as the competitors in the business, thieves, etc. whose interests obviously diverge with those of the company. Another very strong argument against the stakeholder theory is that there is no unique, well-sustained, quantifiable measure that would encompass all the different stakeholders' interests and it is very unlikely that there will ever be one.

Also, it is really disputable whether the stakeholder wealth maximization should be viewed as a goal *per se* or only as a means towards achieving the more important goal – that of corporate value maximization. Many of the authors supporting the stakeholder theory actually base their arguments on the fact that the companies maintaining good relations with the various stakeholders should actually do that for the purpose of increasing their market value or improving other performance indicators (Donaldson and Preston, 1995; Hilman and Keim, 2001).

The issue of the corporate objective function and its implications for the operations of the companies in the emerging and less developed markets has only been occasionally researched. Examples include an early study by Mramor and Valentinčič (2001) and Stubelj et al. (2017) both exploring the corporate goals in the case of Slovenia.

It is not our goal to evaluate the two theories, so we are prone to accept the shareholder value maximization as the only legitimate objective of the modern corporation. Moreover, we would axiomatically accept its significance for the broader financial management discipline and practice, having in mind that its theories, models and decision-making criteria are based on this objective function. Our goal is actually to explore to what extent has this objective been accepted in the reality by the companies from the post-transition economies, since the validity of the aforementioned financial management models would prove unsubstantiated if the opposite is proven.

3. IMPLICATIONS FOR FINANCIAL AND PORTFOLIO MANAGEMENT

The standpoint that the companies (and their managers) have the interests of their shareholders in the first place when making business decisions and that the maximization of the shareholders' wealth through the maximization of the value of the company is the core guiding principle of all financial decisions has been unanimously incorporated in all the prominent textbooks in corporate finance and financial management. This is mostly a consequence of the dominance of the American literature in this field, which, in turn, is based on the stock market and corporate governance practices in the USA. Although the literature has recognized the differences that exist between the Anglo-Saxon model of corporate governance and that of Continental Europe and Japan (La Porta et al., 1998), the financial management textbooks on a global basis have not yet provided any workable alternatives to the corporate objective function that would better suit the markets with different characteristics. The only reference is made to the stakeholder welfare theory, but the discussion usually ends with the conclusion that by working to maximize the value of the company, the managers actually make the best possible contribution to the benefits of all the other stakeholders.

It is not the goal of this paper to criticize any of the theories, but to point to the possible problems that might arise when there is divergence between theory and practice. Some of these include:

- Capital budgeting decisions are made on the basis of the Internal Rate of Return and Net Present Value criteria. If a project is acceptable on the basis of these two criteria, which are basically equivalents, the project is expected to contribute towards increasing the value of the company. Namely, the present value of the projected operating cash inflows, discounted at the cost of capital, should be sufficient to cover the amount of investments and the projected operating cash outflows, thus bringing a net-benefit to the company, which, eventually leads to an increase in its value.
- The so-called "static trade-off" stream of the capital structure theory is based on the principles set by Modigliani and Miller (1958), according to which, the optimal capital structure is the one that minimizes the cost of capital and maximizes the market value of the company. The later corrections to this theory, such as the inclusion of the costs of financial distress, have also adopted the value maximization objective. This is, however, not the case with the "pecking order theory", which gives a more "managerial approach" to this issue.
- Dividend policy decisions should be based on the expected consequences that the dividend decisions would have on the value of the company. Modigliani and Miller's proposition of "dividend irrelevance" is based on the premise that the value of the company depends on the operating income of the company and not on the way the net-earnings are distributed (Miller & Modigliani, 1961). The "bird-in-the-hand" theory and the tax-preference theory both focus on the value of the dividend-paying company, but differ with regards to the actions they propose to achieve this goal. Finally, a common feature of the dividend policies of the companies in mature market economies is its stability, which is related to its predictability and usage in the valuation of the companies.
- The Capital Asset Pricing Model (CAPM) includes a measure of systematic risk, which is based on the market valuation of the company shares.

- Many other decisions in finance, such as those about merger and acquisitions, portfolio management, equity valuation techniques, etc. are either based on the value maximization objective or assume its widespread adoption by economic agents.

On the other hand, the empirical studies in the emerging economies show that the companies do not always make their financial decisions in accordance with these principles. Numerous studies have shown that the pecking order theory is the one that most closely explains the capital structure policies of the companies in these countries (Booth et al., 2001; Bauer, 2004; Benkato et al., 2005; Črnigoj and Mramor, 2009, etc.), while their dividend policies rarely correspond to any of the theories or the dividend stability paradigm (Adaoglu, 2000; Mramor and Valentinčič, 2001; Al-Kuwari, 2009; Al-Qaisi and Omet, 2010, etc.). These divergences from the theory and the practice of the mature market economies could be a consequence of various factors, but they could also be a result of the differences in the fundamental attitudes of the managers in the developing countries. Therefore, we need to examine their viewpoints with regards to the role of the stock markets to determine if their shareholder-related actions are deliberate or are they only a reaction to the regulatory requirements.

4. RESEARCH METHODOLOGY, DATA AND RESULTS

To achieve the above goal we implement a methodology based on an analysis of information that is already made publicly available, i.e. information that can be found on the company websites. Similar studies have been made in the past using questionnaires (Mramor and Valentinčič, 2001; Stubelj et al., 2017), but the problem with this method is the possible bias in the managers' responses who might be prone to answer "what is most appropriate" rather than giving honest answers. The methodology we propose is aimed at obtaining impartial information, based on unbiased sources.

The research was based on a sample of companies traded in the stock exchanges of four countries: Slovenia, Croatia, Serbia and Macedonia. All these countries have gone through the period of post-socialist transition into market economies, although this process could be considered not yet finished in all of them and in all the segments of their economies. Anyway, these countries have had functional stock markets for at least 12 years and we want to explore to what extent the participants in these markets could reasonably base their decisions on the premise of the value maximization objective.

For this purpose, a selection of companies from these stock exchanges was made, which includes all the listed companies, and also a certain number of the non-listed companies (traded in the second or unofficial markets), usually those with a higher stock turnover. For convenience, we will call these markets first and second, although their official names differ by stock exchange. As a result, the final sample consists of 148 companies and its structure is given in Table 1.

Table 1. Structure of the sample, number of companies

	Slovenia	**Croatia**	**Serbia**	**Macedonia**	**Total**
First market	8	23	9	27	**67**
Second market	27	11	27	16	**81**
Total	**35**	**34**	**36**	**43**	**148**

Source: Author

The research was implemented as a survey of the companies' websites on the basis of an individual observation by the examiner. A list of issues that had to be examined was prepared, with possible answers given in a yes/no format or as graduations from 1 to 3. The graduation was dependent on the impression of the examiner.
The results of the survey are presented below. For convenience, they are separated into three subsections, each of them dealing with one particular issue.

4.1. Openness of companies toward their shareholders

The first issue that attracted our attention was to assess the transparency of the companies. This was done by observing the percentage of companies maintaining an investor relation (IR) section of any kind on their official websites, but it was accompanied by an assessment of the quantity of data provided there, the ease of access to these sections and the information on company shares provided on the websites.
The part of the questionnaire related to these issues consisted of the following items, with the respective answer opportunities:

Question:	**Possible answers:**
Is there an Investor Relations section on the website?	Yes / No
Access to IR section	1 to 3 (1=difficult, 3=easy)
Quantity of information in IR section	1 to 3 (1=small, 3=large)
Information on company shares on company website	- Current (updated) information - Any (general) information - No information

The results of this part of the survey by country are given in table 2. Due to the different size samples by market, the results are given as percentages from the total number of observed companies in the respective market, except for the items in which the answers are given as 1 to 3 grades, where the result represents the average grade.

Table 2. Investor-related information on companies' websites

	Slovenia		**Croatia**		**Serbia**		**Macedonia**	
	First market	Second market	First market	Second market	First market	Second market	First market	Second market
IR section on website (%)	100	100	100	100	100	95.8	85.2	75
Ease of access to IR section (1 to 3; 3=easy)	2.89	2.48	2.78	2.9	3	2.52	2.83	2.33
Quantity of information in IR section (1 to 3; 3=large)	3	2.25	2.91	2.73	3	2.83	2.09	1.92
Info on company shares on company website (in %, no. of companies in parenthesis)								
- Current data	100 (9)	29.6 (8)	47.8 (11)	36.4 (4)	62.5 (5)	4.2 (1)	3.7 (1)	7.7 (1)
- Any data	0 (0)	7.4 (2)	13.0 (3)	0 (0)	12.5 (1)	4.2 (1)	7.4 (2)	7.7 (1)
- No data	0 (0)	63 (17)	39.1 (9)	63.6 (7)	25 (2)	91.7 (22)	88.9 (24)	84.6 (11)
						3 comp. have no website		3 comp. have no website

Source: Author's calculations

Note that the existence if an IR section on a company website was also confirmed in the cases in which it was found under other names, such as "company info", "information for shareholders", etc. In the case of the information related to company shares, "current data" refers to companies providing current market prices of their shares or a link to the appropriate page on the stock exchange website, "any data" refers to the websites that contain information on the number of shares, par value, historical prices, etc., while "no data" means that the website does not contain any information of this kind.

The results show that information relevant for the investors can be found on the websites of most of the companies, with the listed companies being more transparent than the others and that the transparency is highest among the companies from the countries farthest west and diminishing as we move eastwards. We must also bear in mind that in some of these countries the existence of the IR section for certain categories of companies has been made mandatory, thus leading to higher overall scores. However, when it comes to providing current market information about the company shares, the situation is quite different. With the exception of the listed companies in Slovenia and Serbia and to some extent Croatia, the remaining companies do not find providing this information necessary. Of course, it can be attributed to the understanding that this information is today easily accessible through the stock exchanges' websites, but it is also the case in the mature markets, where the companies still put this info on their own websites (see table 5 below). Most of the companies in Macedonia and numerous non-listed companies in the other countries do not provide even the basic information on the company shares to the prospective investors. We find this as a rough measure of the so-called voluntary transparency compared to the mandatory transparency to which the companies adhere due to the existence of rules and not because of their awareness of the importance to be open to the public. Also, we use this as a first indicator of their understanding of the stock market as an independent evaluator of their achievements.

4.2. Availability and size of annual reports

Throughout the decades, the annual reports of large corporations have taken a broader meaning than serving only as a means for dissemination of relevant information to the shareholders. They involve a large marketing component with images of the company products, messages to the broader public and innovative formatting solutions. The companies in the post-transition economies have faced the issue of preparing annual reports only recently. Moreover, to many of them, these documents have come more as a legal requirement rather than as a voluntary channel of communication with the current and prospective investors. For this reason, it was important to analyze the presence of the annual reports on company websites, their size, the extent to which they are really shareholder-oriented and the content related to the company shares.

The first information we needed in this context is the mere presence of annual reports on the companies' websites. Namely, although most of these companies prepare some kind of reports, in a number of cases they only submit them to the stock exchange, without making them available through their websites, indicating lack of sense for the real meaning of these documents. This issue is additionally examined through the analysis of the size of these reports, i.e. their length as a number of pages. The goal of this survey was to differentiate between the companies preparing short reports simply to fulfill mandatory requirements, from those dedicating time and efforts to address the stock market. Although the size of the report is not a real reflection of its quality and completeness, a three-page report and a hundred-pages one certainly differ in terms of the willingness to provide certain information content to the public.

To complement the above information, we also analyze the content of the reports with regards to two aspects: whether they contain any information on the recent performance of the company shares on the stock market and the extent to which the reports address the shareholders directly. The first aspect is expected to accompany the information given in Table 2 above, which referred to the same issue on the company websites. The second aspect is concerned with the general tone of the report and the understanding of the company managers of its basic purpose. Namely, most of the corporate annual reports in the mature economies begin with the CEO's *Message to the shareholders* (see table 5 below). This is not always the case in the analyzed economies and we wanted to check if the shareholders are directly addressed in the reports at all, or the reports are aimed at a broader public with no special reference to the shareholders.

The results of this analysis are presented in table 3. All the items in the table are given as percentages, i.e. the portion of companies' reports conforming to that specific item as a part of the total, except for the average length of the reports. The length is given as a number of pages, excluding the financial statements and auditors' reports sections, since these are in most cases obligatory, standardized and take a considerable portion of the reports. As the reports markedly differ by size, both the mean and the median of the sample were calculated. The results show that with the exception of Macedonia, most of the companies in the analyzed countries make their annual reports permanently available through their websites. Lack of doing so indicates a formal, rather than attentive approach toward preparing the report. Most of the annual reports, however, do not contain information on the company shares, nor do they address the shareholders directly. The last issue is especially worrying, since it reflects a lack of accountability of the managers to their supreme stakeholders.

Table 3. Annual reports length and content

	Slovenia		**Croatia**		**Serbia**		**Macedonia**	
	First market	Second market	First market	Second market	First market	Second market	First market	Second market
Annual report (AR) on company website (%)	100	92.6	95.6	100	87.5	87.5	48.1	62.5
AR contains market information on company shares (%)	100	34.6	52.2	9.1	25	33.3	17.4	7.7
AR addresses company shareholders (%)	77.8	19.2	39.1	18.2	12.5	3.7	26.1	23.1
Size of annual reports without financial statements and auditors' report (length in pages):								
Maximum	215	88	160	52	80	85	104	58
Minimum	90	9	5	3	14	3	3	3
Median	130	28.5	32.5	4	40	14	18.5	10
Mean	135	34.2	45.0	23.0	44.4	22.6	26.9	23

Source: Author's calculations

As already mentioned, the reports differ with respect to their size in a very wide range. The median size, which is probably the best measure in this case, ranges between 18.5 and 130 for the listed companies and between 4 and 28.5 for the unofficial market. The small figures do not provide sufficient confidence in the willingness of the managers to deliver comprehensive information to their shareholders.

4.3. Company objective

The third portion of the questionnaire deals with the company objective. The companies' annual reports and their websites were analyzed to derive an implicit conclusion about what is considered as an ultimate company goal that guides the process of decision-making. More specifically, we wanted to determine to what extent the value maximization objective is accepted among the managers in the region. The research was conducted by exploring the publicly stated objectives, strategic goals, company missions, etc., to ascertain the goal that most appropriately depicts the focus of the company activities.
The results of the analysis are given in table 4. The numbers represent the number of companies for which certain objective has been identified as the ultimate goal. Percentages are avoided to obtain a clearer picture of the occurrences. The total number of companies in this table differs from those above, because for a number of companies it was not possible to derive a specific single goal.

Table 4. Identified company objectives

	Slovenia		**Croatia**		**Serbia**		**Macedonia**		**TOTAL**
OBJECTIVE	First market	Second market	First market	Second market	First market	Second market	First market	Second market	
Value maximization		4	3				1		**8**
Shareholders' satisfaction	2		2		1		1		**6**
Stakeholder satisfaction	6	3	3		2	5	5	3	**27**
Profit maximization	1	3	2	4	1	2	9	6	**28**
Revenue growth		5	5	2	3	3	3	2	**23**
Survival		2	1			2	2		**7**
Expansion and growth		2	6	2		2			**12**
Stability					1				**1**
Efficiency		1							**1**
Customers' satisfaction								2	**2**
TOTAL	**9**	**20**	**22**	**8**	**8**	**14**	**21**	**13**	**115**
AR contain explicit statement on company objective(s)	5	12	7	0	2	4	4	0	34

Source: Author's calculations

The results clearly show that the interests of the shareholders are not the top priority for the majority of the company managers. Both value maximization and shareholders' satisfaction (which is broader than value maximization, since it involves dividend payouts, etc.) are the guiding principles for slightly more than 10% of all the companies in this sample. Most of them are headquartered in Slovenia and Croatia. Among the other companies, the traditional objectives of maximization of profits and revenue and the overall growth are still the ultimate goals. However, 27 companies have mentioned the interests of multiple stakeholder groups as the focal point of their strategies. It is difficult to tell whether this attitude represents a conscious acceptance of the stakeholder theory or is it some kind of a remnant of the former system in which the companies were expected to satisfy the interests of the society as a whole.

4.4. Comparison with mature markets

In order to broaden the picture and provide some basis for comparison with the companies from the developed economies in the west, we have made a small inquiry into the websites of several randomly selected companies listed in the stock exchanges in Frankfurt, Paris, Zurich and Milan. There were only two items that were explored in these websites: the addressing in the annual report and the market information about the company shares. The first item refers to the beginning of the annual report which usually contains a message from the company CEO. The message usually addresses the company shareholders (or stakeholders). The study simply counts the occurrences of these addressing. The other item is self-explanatory and has the same meaning as in the above survey.

Table 5. Addressing and share price info by companies from mature markets

Deutsche Bourse (Frankfurt)	**CEO's message begins with…**		**Share price info**
	Dear shareholders, …	**Dear stakeholders, …**	
SAP SE		x	x
BASF SE	x		x
ALLIANZ SE	x (Investors)		x
BAYER AG	Stockholders and friends		x
SIEMENS AG			x
DEUTSCHE BANK AG	x		x
Paris Bourse (Euronext)			
ACCOR			x
BNP PARIBAS ACT.A			x
DANONE			x
L"OREAL			x
RENAULT			x
VIVENDI			x
SIX Swiss Exchange (Zurich)			
ADECCO	x		x
GEBERIT	x		x
NESTLE	x		x
NOVARTIS	x		x
SWATCH GROUP	x		x
ZURICH INSURANCE	x		x
Borsa Italiana (Milan)			
CAMPARI			x
ENEL			x
ENI	x		x
GENERALI			x
INTESA SANPAOLO	x		x
ITALGAS	x	x	x
TENARIS	x		x

Source: Author's analysis

Without summarizing, we present the data by company. It is obvious that the current market information on the company shares is available on the websites of all the surveyed companies. Also, the most frequent addressing in the CEO's message is to the shareholders, with minor exceptions, while the French companies' reports do not address anybody in particular.

Therefore, although corporate governance practices in continental Europe differ from those of the Anglo-Saxon countries, it is obvious that most of the companies in Europe put their shareholders in the first place, thus implicitly accepting the utmost commitment to work for their benefit.

5. DISCUSSION OF RESULTS

Most of the results of the survey confirm our doubt with regards to the mindset of the managers in the post-transition economies of Eastern Europe. Namely, the presence of IR sections on the websites of the companies and their content could be considered satisfactory. However, the infrequent cases of current stock market information in the websites (only 40 out of 148 companies) show that the companies most often simply confirm with corporate governance regulations, instead of willingly developing their relations with the current and prospective equity investors.
The findings related to the annual reports supplement the above conclusions. While annual reports are regularly prepared and most often publicly accessible, they rarely refer to the current share prices. Also, in most cases, the tone of the reports is neutral to the shareholders, and the median size of the reports confirms that they are often written to satisfy the requirements, without offering much additional information.

Finally, the value maximization and the satisfaction of shareholders do not fare especially well as corporate objectives. This is the case in all of the analyzed countries. The objective statements are often vague, emphasizing mostly accounting performance measures, such as profits, revenues, expansion, etc., which are usually considered only as intermediate goals in current literature. Although it might seem that all these goals lead to the same final outcome, we must make a difference between the long and the short term and the implications of the managers' incentives to accomplish these goals compared to the long-term ones.

The general impression is that the managers of the companies in these countries have not yet developed a strong sense of accountability towards their shareholders and they lack the awareness of the necessity to base their decisions on their expected contribution to the value of the company. As mentioned in the third section of the paper, this situation could have several implications for the processes of financial and portfolio management. What should the equity investors expect from their investment in such companies? Their interests would diverge from the company goals. Under such conditions, investing in shares would more resemble gambling rather than a process based on a sophisticated analysis. When the investors lose their faith in the efficiency of the stock markets, they follow patterns of irrational behavior and deviate from rationality (Maditinos et al., 2007; Evans, 2006). Such behaviour further increases the riskiness related to investments and the volatility of the stock markets. The awareness of such a situation would undermine the development of the equity markets, with a negative impact on the overall economic development of these countries.

As mentioned above, the application of the adopted financial management principles makes sense only if the basic premises of the theory are accepted. The selection of investment projects or the company valuation critically depend on the cost of capital estimates. Different institutional settings make it impossible to simply transfer the capital structure theory across countries (Booth et al., 2001).

There are implications for corporate governance, as well. The corporate governance concept is based on the premise of aligning the interests of managers and shareholders for the ultimate goal of maximizing shareholders' welfare. If this objective is not built into the company policies, it is questionable if the shareholders could consider the managers liable for the commitments they had never accepted? The lack of supervision hinders the organizational capabilities of the companies in the transition economies (Filatotchev et al., 2003), increases the probability of fraud (Chen et al., 2006) and reduces firm valuations (Bebchuk et al., 2009). Further, the opportunities used in mature markets to motivate the managers, such as bonuses in the form of shares or stock options become inapplicable.

6. CONCLUSION AND RECOMMENDATIONS

The results of the study provide sufficient basis to question the sustainability of the traditional financial management principles in the countries that recently underwent the process of economic transformation from socialism to market economies. It appears that in addition to the change of ownership titles and the building of new institutions, the application of management techniques developed under different circumstances requires also a change in the mindset of the people. Namely, many of the postulates of contemporary financial management use the premises based on the value maximization theory. As Damodaran puts it: "To the degree that one buys into this objective, much of what corporate financial theory posits makes sense. To the degree that this objective is flawed, however, it can be argued that the theory built on it is flawed as well." (Damodaran, 2011, page 3)

Although the sample of companies surveyed might seem small, it includes almost all the largest joint-stock companies in the region. All the listed companies and the most important non-listed companies have been examined. The value of the survey is increased by making implicit conclusions from direct observation, rather than by questioning which might have resulted in an intentionally improved picture.

The results, already discussed above, by and large, confirm our thesis. The companies in these countries seem to be focusing on a plethora of objectives and they are rarely related to the welfare of their shareholders. Even the other "modern" objective, stakeholder welfare, is not the most preferred alternative. The managers rather set their goals in terms of traditional performance measures, which cannot be easily converted into equity investors' welfare. Actions aimed at increasing profits or sales could be accompanied by increased costs or taking undue risks, thus having adverse effect on company value. The reasons for this, beside the early stages of the system, could be traced to the lack of contemporary management knowledge and possibly to the extent of internal equity ownership, which decreases the sense of accountability towards external shareholders. The latest argument could possibly explain the differences that exist between Slovenia and Macedonia, for instance, which implemented two different types of privatization.

Finally, the implications of this study are manifold. It is obvious that there is a discrepancy between what is taught in the finance textbooks and the reality of these countries. It is not the scholar inaccuracy that bothers us, but the fact that it raises the issue of applicability of the modern finance principles under such conditions. For example, what is the use of the dividend discount valuation technique which is based on the assumption of a stable dividend policy, when the company does not consider the benefits of implementing such a policy important? Can we talk about optimizing the financing mix for a company which is not actively dedicated to lowering the cost of capital and thus maximizing its market value? The most striking example is the functioning of the stock markets. Although a lot of effort has been made to increase the breadth and depth of these markets, the fact that the managers do not contemplate the market pricing of their efforts, makes investing in such a company similar to betting on a team that has no goal of winning the game.

This is by no means a complete study, but rather an effort to raise the awareness of this issue. It is expected to initiate a new approach to the transfer of knowledge from the mature market economies into the emerging ones, an approach that would consider the differences that exist in terms of the maturity of the systems, existing traditions and attitudes, differences in corporate governance, etc. Further studies should encompass larger samples, involve more countries and most importantly, quantify the impact that the observed attitudes toward the company objectives have on shareholders welfare.

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