# GOVERNANCE AND CORPORATE CONTROL IN THE UNITED STATES

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## Abstract

This paper provides an overview of business entities in the United States. We analyze current trends in the ownership structures of U.S. firms, diversity and inclusion, mergers and acquisitions, minority shareholder rights protections, and review the literature related to corporate ownership and financial performance. With the shift in the U.S. from defined benefit pension plans to defined contribution plans and a desire for increased corporate governance, we observe a significant increase in the financial assets under management by large institutional investors. It is believed these large institutional investors can have a significant impact on the governance, decision-making, and performance of the U.S. publicly traded firms. We observe an increasing trend in foreign indirect investment in the U.S. from countries in Europe, Asia and the Pacific Rim, North and South America, the Middle East, and Africa. Additionally, increased compensation of publicly traded firms' top executives is shown, which has resulted in an increased disparity between the compensation of top management teams and the firms' hourly employees. Lastly, we expect the suggested bias against women and other minorities, as evidenced here, will be lessened in the future and should result in improved financial performance for firms.

**Keywords:** Ownership Structures, Mergers and Acquisitions, Shareholder Rights, Financial Performance, Diversity

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## 1. INTRODUCTION

As recent as the 1970s in the United States, workers could look forward to working an entire career at one company. In fact, defined benefit retirement plans, also known as pensions, where the employer pays employees after retirement based on a number of factors including the length of service and salary, were the norm. Historically, these types of plans, because of their design, penalized job changes for workers thus tying them to the firm for life.

Starting in the mid-1980s, defined benefit plans began to be phased out and replaced with defined contribution plans. These defined contribution plans required the employee to put in some or all of the money while working. As a result, their actual retirement fund is tied to the securities that they are invested in as part of their own portfolio in the capital markets. At the same time in the 1980s, the U.S. corporations saw a huge takeover wave with a movement towards a performance-based executive compensation for management. This new performance-based compensation helped make managers more focused on the value of the corporation's stock, which by default has had repercussions on the value of the worker's portfolios. By the 1990s, according to Dobbin and Zorn (2005), managers aligned themselves increasingly with the interests of shareholders through new forms of executive pay and adopting the ideology of shareholder value. Shareholder value, the primary goal for the firm, is defined as the increase in the value of the shareholder's wealth, either via the distribution of dividends or the increased value of the firm's stock. Interestingly enough, this movement towards the shareholder

value, coupled with the increased use of defined contribution plans, has caused a reduction in individual or retail ownership of stocks toward a movement to more institutional ownership.

According to Gelter (2016), by the 2000's we see a reconcentration of share ownership with a higher proportion of shares being held by institutional investors with retail investors progressively leaving the market. Gelter (2016) argues that while the U.S. remains to a large extent manager-centric, managerial incentives are more aligned with shareholder interest. He argues that because of the defined contribution plans, which now constitute the majority of retirement plans held by employees in the U.S., the role of labor has changed fundamentally and employees have effectively become shareholders.

As ownership and executive pay changes shifted in the U.S. so did the need for more corporate oversight and accountability. The corporate scandals of the 1990s, such as Enron, Tyco, WorldCom, etc., lead to an increased emphasis on effective corporate governance and increased regulations at both the state and federal levels including the passage of the Sarbanes-Oxley Act (SOX) of 2002. The SOX is a measure to improve transparency in financial accounting and to prevent fraud. The global financial crash of 2008 led to among other things the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which increased capital requirements for financial institutions to limit the risk by enforcing transparency and accountability.

The result is that much of the current debate that centers on corporate governance in the U.S. focuses on the issues that surround ownership structure. Are corporations owned by a wide variety of disempowered shareholders, thus rendering the management team of the corporation free reign? Alternatively, are corporations governed by a closely held and controlling shareholder or a coalition of shareholders (family, hedge fund, institutional investor, etc.) that closely monitor management and have a larger say in the path of the corporation's day-to-day operations? Owners of businesses in the U.S. derive their rights from the charter and bylaws of the company, the laws of the state, in which the company is incorporated or organized, and the U.S. federal securities laws and regulations. Shareholders of firms with shares trading on listed stock exchanges may also have additional rights emanating from the rules of the exchange.

In this paper, we provide an overview of business entities in the U.S. in Section 2. We analyze trends in ownership structures of U.S. firms in Section 3, analyze trends in mergers and acquisitions in Section 4, discuss minority shareholder rights protections in Section 5, and review the literature related to corporate ownership and financial performance in Section 6. In Section 7, we conclude.

## 2. A LEGAL OVERVIEW OF BUSINESSES IN THE U.S.

### 2.1. Types of business entities in the U.S.

According to the United States Internal Revenue Service, there are five different types of businesses in the U.S. as shown in Table 1.

**Table 1.** Types of business entities in the U.S.

| *No.* | *Types* |
|---|---|
| 1. | Sole proprietor |
| 2. | Partnership |
| 3. | Corporations |
| 4. | S corporations |
| 5. | LLC (limited liability company) |

*Sole proprietorship:* The sole proprietorship is the simplest form of a business operation. The sole proprietor is the person who owns the business. The business is not a legal entity. Many sole proprietors use their own name as the company name or a trade name such as Grace's Beauty Salon. The person who is the sole proprietor is the person who is legally responsible for the debts and liabilities of the business. They own the business by themselves and are not in business with someone else.

The sole proprietorship is a very popular form of business in the U.S. because it is easy to set up and costs very little in the way of legal red tape. There is no need to observe such things as annual board meetings, voting rights, etc., as with other businesses since there is no one else connected to the business. Companies that are sole proprietorships will only do one set of taxes and all profits and losses go through the personal taxes of the individual who owns the company. Such an arrangement with reference to taxes is called a "pass-through".

Sole proprietorships cannot raise funds by selling shares in the company as there are no shares to sell. Additionally, if a sole proprietor runs into financial trouble with the business the sole proprietor is the only person responsible for all the business's debts and liabilities. Creditors can bring lawsuits against the proprietorship and the owner of the sole proprietorship will be responsible for paying all the debts, etc., with their own money. Many businesses start as a sole proprietorship and progress from there to become other forms of more complicated businesses as they grow.

*General partnerships, a limited partner, and limited liability partnerships:* A partnership is where two or more individuals choose to carry on a trade or a business operation together to share in its profits and losses. Each of the members of the partnership brings something to the table of interest to the other party, i.e., labor, skill, and money. There are three types of partnerships: a general partnership, a limited partnership, and a limited liability partnership.

General partnerships are more complicated than sole proprietors since they are owned by more than one person. As such, they need to file annual paperwork with the government that details income, profit/losses, deductions, expenses, etc. associated with the business. This report informs the government of its financial history over the course of the year. However, the firm does not pay taxes via the partnership. Instead, the owners of the partnership allocate the partnership's income or losses to each other based on the percentages of their ownership. The income or losses are "passed through" to their own personal income taxes and each pays according to what they owe. The ease of the "pass-through" with partnership profits and losses makes owning a partnership relatively inexpensive. General partners share in the liabilities of the firms and are responsible for liabilities that other partners incur related to the firm. This risk of liability can be too much for some partners to incur. As a result, some companies have limited partners or can be set up as limited liability partnerships.

Limited partners are those who do not take on any risk liability of the actions of the management/ owners and cannot participate in the management of the company. They are usually just investors in the company and can share in the profits of the company. In this partnership form, management can govern the business as they wish without the limited partners getting involved in the running of the business. Taxes are handled as they are in a general partnership by passing the profits and losses to the individual's personal taxes.

A limited liability partnership (LLP) allows limited liability for all the parties associated with the business. Limited liability partnerships do allow partners to participate in management decisions and each partner is not responsible for the liabilities of the other partners. The partner in the LLP is responsible for their own negligence and is responsible for the negligence of anyone working directly under their supervision, but is not responsible for the negligence of the other partners. This type of partnership is only available to a few types of professionals such as doctors or lawyers.

*Corporations:* A corporation is a legal entity, which is guided by a group of individual officers known as the board of directors. The corporation's owners are its shareholders. Shareholders exchange funds for ownership in the business. The ownership is in the form of the company's capital stock. The company will pay taxes at the corporate level on any profits the firm earns. When these profits are distributed, as dividends, the individual owners will be taxed on those dividends as well. As a result, the operating profits of corporations in the U.S. may be double taxed, first at the corporation level and secondly at the shareholder level.

A corporation files legal paperwork to be incorporated in a particular state and then must file paperwork with any state which they wish to do business in. The owners of the firm (its shareholders) have elections each year to elect the board of directors. The board of directors meets regularly to discuss and monitor the health and direction of the company. The board of directors also, in turn, elects officers to run the company such as a President (CEO), a Chief Financial Officer (CFO), a Secretary, etc. These officers run the day-to-day operations of the company.

Shareholders of the corporation have limited liability in the company. They do not take on any legal responsibility for any damage the corporation may do. The most that they stand to lose is their financial investment in the company. None of their personal assets is at risk if the company fails. They do get to share in the profits of the company through dividends and price appreciation but do not get involved in the day-to-day operation of the company.

*S corporations:* An S corporation is a special type of corporation that allows the profits and losses to be passed directly through the shareholders so they can pay taxes at the individual level. This type of corporation eliminates the disadvantage of double taxation, while at the same time, keeping the limited liability of the shareholders. The result is that the S corporation is more appealing to small firms that want to incorporate. However, the cost of administrative paperwork associated with filing at the corporate level makes it a more expensive option than the partnership. According to the Internal Revenue Service, S corporations must be domestic corporations, with only certain types of shareholders. They can have no more than 100 shareholders. S corporations need to follow all the paperwork of regular corporations and must also follow the same structure of directors and shareholder meetings each year. While traditional or general corporations are allowed to issue multiple types of stock, S corporations are only allowed to issue common stock. This stipulation can make it more difficult for S corporations to find investors and limits growth opportunities.

*Limited liability corporations (LLCs):* A limited liability corporation (LLC) is a special type of corporation that has the advantages of the limited liability of the owners to the debts and liabilities of the company. LLCs also have the advantage, similar to that of an S corporation, of the pass-through tax entity, which allows the profits and losses of the company to pass through to the individual owners' personal taxes thus eliminating the double taxation standard.

**Table 2.** Comparison of the typical business ownership and the requirements

| *Type of business structure* | *Ease of formation* | *Amount of liability* | *Operational requirements* | *Management considerations* | *Federal tax consequences* |
|---|---|---|---|---|---|
| Sole proprietorship | Easy | Sole proprietor has unlimited liability | Relatively few | Sole proprietor has 100% control of management | Profit and loss are taxed at personal level |
| General partnership | Low/ Moderate | Each partner is liable for themselves and the other partners | Moderate some requirements but less than corporations | Each general partner has a say in the management of the firm | Each partner is taxed at the personal level based on their ownership |
| Limited partner | Low/ Moderate | No liability really just an investor | Moderate some requirements but less than corporations | Limited partners are not allowed to be involved in management | Each partner is taxed at the personal level based on their ownership |
| Limited liability partnership (LLP) | Low/ Moderate | Each partner is liable for themselves and those under their direction | Moderate some requirements but less than corporations | Each partner has a say in the management of the company | Each partner is taxed at the personal level based on their ownership |
| Corporation | High | Shareholders are not responsible for firm liabilities | Board and shareholders' meetings and files | Board of directors responsible for management | A separate entity is required to pay taxes. Taxed again at the dividend level to shareholders |
| S corporation | Med/High | Shareholders are not responsible for firm liabilities | Board and shareholders' meetings and files | Board of directors responsible for management | Profits and losses are passed through to the personal level |
| Limited liability corporation (LLC) | Medium | Shareholders are not responsible for firms' liabilities | Some requirements but less than corporation | Management responsibilities are outlined by owner agreement | Profits and losses are passed through to the personal level |

However, unlike the S corporation, the LLC can have more than 100 shareholders. An LLC is also allowed to have non-U.S. citizens as shareholders. LLCs are also more flexible in distributing profits to their owners and are not bound by the level of ownership to do so. The LLC can issue more than just common stock, but unlike an S corporation, more than one person is necessary to form an LLC and its ownership is not perpetual. Owners of the LLC will have to seek approval from other owners in the LLC to transfer their interest to another party. Table 2 shows a summary comparison of the typical business ownership structures available in the U.S.

## 2.2. Share structure in U.S. corporations

Many companies have two different types of shares: common and preferred. Common shares are the most prevalent. Usually, common shares carry a voting right per share and a claim on the potential dividends the company will pay. The voting rights allow the investors to vote for the board members that will be responsible for managing the company. Sometimes the common shares are delineated into different types. For example, Class A shares may have more voting rights per share and lower dividends while class B shares have less voting rights but higher dividends. This concentrates the decision-making power of the firm into a major block of owners such as a family or institutional investors.

The second form of shares is called preferred shares. Preferred shares are similar in valuation to a perpetual bond. The preferred shares usually do not come with any voting rights for the firm and usually have a fixed dividend payment. Preferred shares have a higher claim on the assets than do the owners of the common shares. As such, dividends on preferred shares are required to be paid before any payout to common shareholders.

# 3. OWNERSHIP STRUCTURES IN THE U.S.

Many businesses start as a single entity or family-run company and grow to include a wider base of owners. The concentration of ownership can vary depending on the individual characteristics of the firm. Below are some types of ownership that companies in the U.S. may have.

## 3.1. Family ownership

Family ownership can run the gamut of types of firms from sole proprietor through the public corporation. Usually, when associated with a family connection, it means that the family has a controlling ownership stake in the firm by holding a majority of the firm's shares of stock. Family members may serve as CEOs, top managers, chairpersons, or directors of the firms.

## 3.2. Institutional ownership

One of the problems of having many individual owners of a corporation's stock is that each owner carries such a small weight in the voting rights that agency problems could arise due to the inability of any individual investor to make a difference as to the management of the firm. As the result of many individual investors moving their assets into institutional funds for defined contribution plans, the corporate governing functions of institutional owners can reduce agency problems and improve firm performance (Shleifer & Vishny, 1986). In a corporation with many small owners, it may not pay any one of them to monitor the performance of the management. Shleifer and Vishny (1986) explore a model in which the presence of a large minority shareholder such as an institutional owner can provide a partial solution to this agency problem.

Institutional investors are by definition not an individual person. They are intermediaries who can be described as managers and investors of other people's money. Institutional ownership refers to the amount of a company's stock, which is owned by pension funds, mutual funds, insurance companies, hedge funds, venture capital firms, investment funds, endowments, and private foundations. According to Borochin and Yang (2016), by the 1980s institutional investors held approximately 20–30% of the average publicly traded firm with the remaining 70–80% made up by individual retail investors. However, according to Blume and Keim (2017), by the 2010s as markets changed and more individuals moved their investments into investment funds, insurance companies, and mutual funds, etc., over 65% of the average publicly traded firm is now owned by institutional investors.

Table 3 shows the financial assets in the U.S. in billions of dollars under management by various institutional investors. Investment funds have increased financial assets managed between 2009 and 2016 by 8%; while insurance companies and pension funds have seen a 5% and 6% increase respectively.

**Table 3.** Financial assets under management in billions of U.S. dollars

| | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* | *2016* |
|---|---|---|---|---|---|---|---|---|
| Investment funds* | 12,335 | 13,366 | 13,356 | 15,252 | 17,867 | 18,864 | 18,672 | 19,798 |
| Insurance companies | 6,448 | 6,941 | 7,284 | 7,667 | 7,935 | 8,365 | 8,294 | 8,672 |
| Pension funds | 13,181 | 14,554 | 14,927 | 15,765 | 16,976 | 17,598 | 17,931 | 18,734 |

*Notes: * Investment funds = Non-money market funds + money market funds.*
*Source: OECD (2017).*

Large investors can have a significant impact on the governance, decision-making, and performance of publicly traded firms. When an individual or group of investors acquire ownership of more than 5% of a voting class of a firm's equity securities registered under Section 12 of the Securities Exchange Act of 1934, they are required to file a Schedule 13D (or possibly the abbreviated Schedule 13G) with the Securities and Exchange Commission (SEC) within 10 days of the purchase. This information is provided to the firm and each exchange where the security is traded and is available for most publicly traded firms in the SEC's EDGAR database.

Table 4 provides trends of institutional block ownerships of greater than 5% from 1997 to 2016. Institutional block owners can provide an external monitoring role of the firm's top management thereby mitigating potential agency issues. The number of institutional block owners increased each year from 2003 to a peak of 13,167 in 2007 followed by a downward trend after the market crash of 2008. By 2016, the number of block institutional owners with greater than 5% of the outstanding common shares was 8,567 fewer than the 8,808 owners in 1997 reflecting a persistent preference for diversification by large institutional investors since the market crash 2008.

In 1975, Congress passed Section 13(f) of the Securities Exchange Act of 1934 to increase the public availability of information regarding the securities holdings of institutional investment managers. According to the SEC, institutional investment managers are those entities that either invest in, buy or sell, securities for their own accounts, including banks; insurance companies; brokers/dealers; corporations and pension funds that manage their own investment portfolios; investment advisors who manage private accounts, mutual fund assets, pension plan assets including municipal pension funds; and trust departments of banks who exercise investment discretion over $100 million or more in Section 13(f) securities. The Official List of Section 13(f) securities primarily includes the U.S. exchange-traded stocks, shares of closed-end investment companies, and share of exchange-traded funds (ETFs), as well as certain convertible debt securities, equity options, and warrants and are available on the SEC website. According to data compiled from the Thomson Reuters 13-F holdings database, the average number of 13-F institutional owners for firms providing data increased each year from 36 in 1997 to 91 in 2016, an increase of 153% over the twenty years. The results of Table 4 suggest a growing trend in the U.S. financial markets in the average number of large institutional owners each year over the 1997 to 2016 period, yet the number of institutional owners with a greater than 5% interest in a particular firm has generally decreased since the market crash of 2008.

**Table 4.** Trends of institutional block ownership of greater than 5% from 1997 to 2006

| ***Year*** | ***1997*** | ***1998*** | ***1999*** | ***2000*** | ***2001*** | ***2002*** | ***2003*** | ***2004*** | ***2005*** | ***2006*** |
|---|---|---|---|---|---|---|---|---|---|---|
| Number > 5% | 8,808 | 10,087 | 9,297 | 9,213 | 8,862 | 8,780 | 8,486 | 9,847 | 11,093 | 11,968 |
| Avg. 13-F | 36 | 38 | 41 | 43 | 45 | 47 | 56 | 60 | 59 | 63 |
| Number | 10,413 | 12,044 | 12,119 | 12,113 | 10,825 | 10,609 | 9,997 | 10,045 | 10,722 | 11,027 |
| ***Year*** | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** | ***2014*** | ***2015*** | ***2016*** |
| Number > 5% | 13,167 | 12,871 | 11,249 | 11,551 | 10,967 | 10,988 | 9,363 | 9,816 | 9,417 | 8,567 |
| Avg. 13-F | 66 | 61 | 66 | 67 | 69 | 77 | 81 | 82 | 87 | 91 |
| Number | 10,971 | 10,831 | 10,356 | 10,599 | 10,183 | 9,022 | 9,582 | 9,585 | 8,576 | 8,007 |

*Notes: Number > 5% is the number of institutional block owners with greater than 5% of the outstanding shares, Avg. 13-F is the average number of 13-F institutional owners, and number is the number of firms providing data (information is gathered from U.S. Securities and Exchange Commission website, https://www.sec.gov/).*
*Source: Data is compiled from Thomson Reuters 13-F Holdings and Standard and Poor's databases.*

## 3.3. Foreign investment in the U.S.

The Bureau of Economic Analysis (BEA) follows foreign stakeholders of the U.S. firms and the U.S. affiliates. The BEA compiles statistical reports on companies for the analysis of multinational enterprises. According to the BEA, direct foreign investment in the U.S. is defined as a foreign investor owning at least 10% or more of voting securities of an incorporated U.S. business enterprise or an equivalent interest of an unincorporated U.S. business enterprise. The entity that is purchasing the investment is known as a foreign parent, and the foreign-owned U.S. entity is known as a U.S. affiliate. The BEA also collects data on foreign direct investment in the U.S. (FDIUS) classified by country of the entity that ultimately owns or controls the U.S. affiliate (UBO).

Table 5 shows the total assets data of foreign direct investment in the U.S. by country from 2007 to 2015. The total foreign direct investment in the U.S. was $12,224 trillion in 2009, the year after the market crash, and peaked at $15,018 trillion in 2014. The largest foreign direct investment in the U.S. is by far from Europe and the European Union, followed by Asia and the Pacific Rim, and Canada.

**Table 5.** Foreign direct investment in the U.S.

| | ***Total assets in millions of dollars*** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** | ***2014*** | ***2015*** |
| All countries | 12,955,017 | 12,940,379 | 12,224,926 | 12,477,805 | 13,458,569 | 13,848,988 | 14,641,199 | 15,018,614 | 14,449,471 |
| Canada | 1,108,494 | 1,227,428 | 1,355,937 | 1,412,515 | 1,563,611 | 1,816,414 | 1,733,092 | 1,918,221 | 1,913,131 |
| Europe | 9,768,958 | 9,194,813 | 8,631,428 | 8,792,337 | 8,727,006 | 8,664,753 | 8,882,046 | 8,777,480 | 7,983,437 |
| Latin America and other Western Hemisphere | 450,672 | 433,324 | 368,029 | 314,369 | 349,834 | 346,174 | 401,838 | 426,000 | (D) |
| Africa | (D) | (D) | (D) | (D) | (D) | 5,878 | 5,529 | 7,031 | 11,298 |
| Middle East | 131,579 | 151,552 | 152,603 | 151,066 | 183,564 | 187,220 | 193,348 | 198,504 | 194,512 |
| Asia and Pacific | 1,321,184 | 1,743,844 | 1,531,866 | 1,650,025 | 2,452,444 | 2,622,733 | 3,145,948 | (D) | 3,495,266 |
| European Union | 7,706,033 | 7,492,121 | 7,256,911 | 7,347,922 | 7,142,144 | 7,154,016 | 7,444,730 | 7,344,348 | 6,644,945 |
| OPEC | 92,839 | 98,867 | 100,005 | 104,801 | 119,112 | 119,969 | 126,081 | 129,337 | 124,682 |

*Notes: D suppressed to avoid disclosure of data of individual companies. OPEC is the Organization of Petroleum Exporting Countries.*
*Source: Bureau of Economic Analysis (BAE), Department of Commerce (n.d., https://www.bea.gov/iTable/index_MNC.cfm).*

# 4. THE U.S. MARKET FOR CORPORATE CONTROL

## 4.1. Remuneration and diversity

Table 6 provides information concerning the diversity of top management of publicly traded firms and compensation data of top management and other workers. The degree of corporate governance and control can be manifested in the firm's increase in the percentage of females in top management positions from only 4.2% in 1997 to a still troubling 8.1% in 2014. More troubling was the decrease of women in top management to only 6.9% in 2015 and 6% in 2016. It is unclear whether the results of 2015 and 2016 are just statistical noise in the data or the start of a new trend of fewer women in top management positions. Reasons for the low participation of women in top management positions may include lower labor market participation rates, gender differences in career goals and negotiations, and, of course, gender biases. However, in discussions with human resources managers across multiple industries, the authors observe a clear preference among the U.S. publicly traded firms for diverse candidates for entry-level and middle management positions. The expectation is that biases against women and other minorities will be lessened in the future, but the process will take many years before it is fully recognized and understood that any bias is a shareholder wealth reducing strategy.

**Table 6.** Diversity and compensation of top management

| ***Year*** | ***1997*** | ***1998*** | ***1999*** | ***2000*** | ***2001*** | ***2002*** | ***2003*** | ***2004*** | ***2005*** | ***2006*** |
|---|---|---|---|---|---|---|---|---|---|---|
| % Female | 0.042 | 0.046 | 0.052 | 0.057 | 0.062 | 0.065 | 0.067 | 0.069 | 0.069 | 0.073 |
| Avg. salary % Δ | 28.50 | 27.09 | 32.53 | 32.48 | 31.41 | 36.62 | 34.29 | 38.97 | 31.09 | 22.30 |
| Avg. hourly % Δ | 3.90 | 4.00 | 3.69 | 3.93 | 3.71 | 2.96 | 2.67 | 2.08 | 2.74 | 3.91 |
| Number | 12,063 | 12,656 | 12,214 | 11,542 | 11,384 | 11,559 | 11,817 | 10,904 | 9,388 | 10,971 |
| ***Year*** | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** | ***2014*** | ***2015*** | ***2016*** |
| % Female | 0.074 | 0.077 | 0.077 | 0.080 | 0.079 | 0.082 | 0.082 | 0.081 | 0.069 | 0.060 |
| Avg. salary % Δ | 26.06 | 29.14 | 19.40 | 18.14 | 18.47 | 16.27 | 19.81 | 18.39 | 16.35 | 15.82 |
| Avg. hourly % Δ | 4.00 | 3.67 | 3.05 | 2.36 | 2.05 | 1.54 | 1.98 | 2.38 | 2.04 | 2.43 |
| Avg. SEC Comp. | 2,530 | 2,390 | 2,315 | 2,738 | 2,903 | 2,983 | 2,972 | 3,553 | 3,315 | 3,513 |
| Number | 12,848 | 12,321 | 11,755 | 11,413 | 11,202 | 11,004 | 10,819 | 10,587 | 10,132 | 9,273 |

*Notes: % female is equal to the percent of females who belong to the top 5 executives; Avg. salary % Δ is the average salary percent change year-to-year (%) of top 5 executives; Avg. hourly % Δ is average hourly wages in private non-farm sector of economy percent change year-to-year (%); Avg. SEC Comp. is the average total compensation of top 5 executives as reported in SEC filings (in thousands); Number is the number of firms providing data.*
*Source: Data is compiled from S&P Compustat Executive Compensation database and U.S. Bureau of Labor Statistics.*

Table 6 also provides information concerning the compensation of publicly traded firms' top 5 executives relative to hourly workers in the non-farm sector of the U.S. economy. The results demonstrate a growing disparity between the compensation of top management and hourly workers each year from 1997 to 2016. While the growth in hourly wages is comparable to changes in the Consumer Price Index (CPI) over the period, the compensation of the top executives has increased significantly in real terms. We also observe that the average total compensation of top management as reported in SEC filings has increased from $2,530,000 in 2007 to $3,513,000 in 2016. By comparison, the average hourly wages in the non-farm sector of the U.S. economy were $17.42 (or $32,234 annually) in 2007 and $21.54 (or $44,803) in 2016.

## 4.2. Mergers and acquisitions (M&A)

Corporate growth can be achieved through the acquisition of new assets (direct investment) or by the acquisition of existing assets via mergers and acquisitions (indirect investment). Both sources of growth are positively correlated and related to expectations concerning the overall economy. Table 7 provides information from Mergerstat Review concerning the number of net merger and acquisition announcements from 1997 to 2016. The number of M&As ranged from a low of 6,796 in 2009, the year after the market crash, to a high of 12,012 in 2015. For years of increases in the number of M&As exceeding 23% (1997, 2004, 2010, 2014), we observe significant increases in the S&P 500 the year before.

**Table 7.** Trends in mergers and acquisitions (M&A)

| ***Year*** | ***1997*** | ***1998*** | ***1999*** | ***2000*** | ***2001*** | ***2002*** | ***2003*** | ***2004*** | ***2005*** | ***2006*** |
|---|---|---|---|---|---|---|---|---|---|---|
| Number | 7,800 | 7,809 | 9,278 | 9,566 | 8,290 | 7,303 | 7,983 | 9,783 | 10,332 | 10,660 |
| % Δ | 33% | 0% | 19% | 3% | -13% | -12% | 9% | 23% | 6% | 3% |
| S&P 500 % Δ | 33.36 | 28.58 | 21.04 | -9.10 | -11.89 | -22.10 | 28.68 | 10.88 | 4.91 | 15.79 |
| ***Year*** | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** | ***2014*** | ***2015*** | ***2016*** |
| Number | 10,559 | 7,807 | 6,796 | 9,116 | 9,519 | 9,610 | 8,777 | 11,240 | 12,012 | 11,657 |
| % Δ | -1% | -26% | -13% | 34% | 5% | 1% | -8% | 28% | 7% | -8% |
| S&P 500 % Δ | 5.49 | -37.00 | 26.46 | 15.06 | 2.11 | 16.00 | 32.39 | 13.69 | 1.38 | 11.96 |

*Notes: Number is the number of net M&A announcements; % Δ is the year to year percentage change in net M&A announcements; S&P 500 % Δ is the percentage change in S&P 500 total return.*
*Source: Data is taken from FactSet Mergerstat (2017) and S&P databases.*

Mergerstat attributes the growth in M&A activity in the late 1990s to deregulation and consolidation in the banking, utilities, office supply, and healthcare industries. Decreased M&A activity in 2001 and 2002, was related to the internet bubble, recession, corporate scandals, terrorist attacks, and conflicts with Iraq. With lower interest rates, merger activity increased in 2004 through 2006 when it reached an all-time high of 10,660 deals. Mergerstat identifies the transformational deal-making of private equity groups as an important source of the number of M&As in 2006 and 2007. The Great Recession combined with the collapse of the U.S. banking system had a profound effect on the significant reduction of deals in 2008 and 2009. The period of 2014 to 2016, saw an increase in M&A activity with the record number of and total deal volume in 2014 and 2015 followed by near-record highs in 2016 (FactSet Mergerstat, 2017). Table 8 provides information from Mergerstat Review that decomposes the number of net M&A announcements by characteristics of the sellers for the period 2007 to 2016. By far, the largest group of sellers involved privately-owned businesses ranging from 51% of M&A announcements recorded in 2009 to 59% in 2015 and 2016. It is noted that the actual relative amount of deals involving privately held sellers are most likely understated since many transactions involving privately held sellers and buyers can go unreported. We observe the highest percentage of divestitures occurred in 2009 after the market crash of 2008. Also of interest is that the percentage of foreign sellers remained relatively stable each year ranging from a high of 12% in 2008 to a low of 9% in 2009. Although average transaction values were much higher, publicly traded sellers made up only 3–5% of the number of deals during the 2006 to 2016 period. This causes some trepidation in interpreting academic research on M&A activity since most samples use only publicly available information included in financial databases and ignore the majority of deals involving privately held sellers.

**Table 8.** M&A seller's characteristics 2007 to 2016

| ***Year*** | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** | ***2014*** | ***2015*** | ***2016*** |
|---|---|---|---|---|---|---|---|---|---|---|
| Divest | 30% | 30% | 36% | 34% | 31% | 31% | 32% | 29% | 27% | 27% |
| Public | 5% | 4% | 4% | 4% | 3% | 4% | 4% | 3% | 3% | 4% |
| Private | 55% | 54% | 51% | 52% | 55% | 55% | 54% | 57% | 59% | 59% |
| Foreign | 11% | 12% | 9% | 11% | 11% | 10% | 11% | 11% | 10% | 10% |
| Number | 10,559 | 7,807 | 6,796 | 9,116 | 9,519 | 9,610 | 8,777 | 11,240 | 12,012 | 11,657 |

*Notes: Divestitures is the sale of subsidiaries, minority interests, or divisions; Public is the publically traded sellers; Private is the privately-owned sellers; Foreign is the foreign sellers; Number is the number of net M&A announcements.*
*Source: Data is taken from FactSet Mergerstat (2017).*

Table 9 provides information from Mergerstat Review concerning the method of payment for the period 1997 to 2016 when the information is reported. Cash transactions are the preferred method of compensation for the sellers each year while deals resulting in sellers receiving debt securities are rarely observed (maximum of 2% of deals in any given year). Transactions, where cash was the method of payment, ranged from a low of 40% in 1997 to a high of 76% in 2016.

**Table 9.** Method of payment

| ***Year*** | ***1997*** | ***1998*** | ***1999*** | ***2000*** | ***2001*** | ***2002*** | ***2003*** | ***2004*** | ***2005*** | ***2006*** |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash | 40% | 44% | 46% | 49% | 45% | 56% | 59% | 57% | 54% | 59% |
| Stock | 33% | 30% | 30% | 32% | 27% | 22% | 18% | 18% | 19% | 17% |
| Comb | 27% | 26% | 24% | 18% | 27% | 21% | 22% | 24% | 25% | 23% |
| Debt | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 2% | 1% |
| Number | 3,153 | 3,440 | 4,048 | 3,602 | 3,080 | 2,702 | 2,870 | 3,113 | 3,143 | 2,896 |
| ***Year*** | ***2007*** | ***2008*** | ***2009*** | ***2010*** | ***2011*** | ***2012*** | ***2013*** | ***2014*** | ***2015*** | ***2016*** |
| Cash | 58% | 57% | 51% | 60% | 64% | 71% | 71% | 72% | 72% | 76% |
| Stock | 16% | 20% | 29% | 21% | 17% | 13% | 12% | 12% | 10% | 9% |
| Comb | 24% | 22% | 19% | 18% | 19% | 16% | 16% | 16% | 18% | 14% |
| Debt | 2% | 2% | 1% | 1% | 1% | 1% | 1% | 0% | 0% | 0% |
| Number | 2,928 | 1,977 | 1,614 | 2,573 | 2,458 | 2,455 | 2,836 | 3,886 | 4,013 | 3,819 |

*Notes: Cash is used to pay the target shareholders; Stock is an exchange of stock between acquiring and target shareholders; Comb is a combination of cash and stock and other securities used to pay target shareholders; Debt is debt and other securities used to pay target shareholders; and Number is the number of transactions disclosing a method of payment.*
*Source: Data is taken from FactSet Mergerstat (2017).*

Stock deals ranged from a high of 33% of all deals reported in 1997 to a low of 9% in 2016. Deals involving a combination of securities ranged from a high of 27% in 1997 and 2001 to a low of 14% in 2016. Deals involving a combination of securities became more important relative to stock-only transactions beginning in 2003 and continuing each year to 2016.

## 5. MINORITY SHAREHOLDER RIGHTS PROTECTIONS IN THE U.S.

State statutes and court decisions are the primary sources of law regarding the protection of minority shareholders. Most corporations are incorporated in the state of Delaware and many states follow Delaware corporate law with regard to the relative powers, rights, and responsibilities of boards of directors, officers, and shareholders.

The U.S. federal securities laws and regulations govern the issuance, sales, and purchase of

securities by issuers and investors, disclosure, and governance requirements for firms listed on an exchange. Overall, shareholders have little direct influence over the operations of the firm but can influence decisions only indirectly by shaping the composition of the board.

One of the main issues confronting minority shareholders is preemptive rights to protect against dilution. A majority of the U.S. states, including Delaware and New York, have adopted "opt-in" statutes where absent an express provision in the firm's charter establishing preemptive rights shareholders do not have them. Since preemptive rights can impede the capital allocation process, or make it more costly, less than 20 companies in the S&P 500 have preemptive rights. Minority shareholders are not given any special rights to appoint boards of directors other than having the right to vote on nominees at the annual shareholders' meetings. Shareholders do not have the right to interfere with the board of directors imposing antitakeover measures unless specified in its certificate of incorporation. Fair price status and minority shareholder appraisal rights in mergers and acquisitions are governed by state laws. Shareholders have the right to inspect corporate books and records while investigating corporate mismanagement (see Cheffins, Bank, and Wells, 2016, for a detailed discussion of the minority shareholder rights in the United States).

## 6. THE U.S. CORPORATE OWNERSHIP AND FIRM PERFORMANCE

### 6.1. Corporate social responsibility (CSR) and performance

Over the past decade, academic finance and management literature has focused on the potential benefits and costs associated with a company's corporate social responsibility (CSR). CSR is used to define and evaluate a company's involvement in its corporate community. Other terms synonymous with the concept of CSR would be stakeholder theory as defined by Freeman (1984), corporate social performance (CSP) as defined by Waddock and Graves (1997a, 1997b), corporate community involvement (CCI) as defined by Burke (1999), corporate philanthropy as defined by Godfrey (2005), and the general term social responsibility (SR). Depending on your point of view, either CSR can be an important component of the company's strategy or it can be a waste of shareholders' funds. Godfrey (2005) looks at the relationship between corporate philanthropy and shareholder wealth. Godfrey (2005) argues that overall rational managers should engage in corporate philanthropy because such activity benefits shareholders. Gan (2006) analyzes a sample of 40 Fortune 500 companies over seven years. Gan (2006) finds support for Godfrey (2005) by looking at the relationship between corporate philanthropy and shareholder wealth using the philanthropic behavior of 40 Fortune 500 companies over seven years. He argues that the data shows that philanthropy could provide insurance-like protection for relational wealth. Gan (2006) continues to argue that companies appear to do good to do well. The reputational benefits from making the donation in hard times may be better appreciated and applauded than if made in good times. Patten (2008) investigates the market reaction to corporate press releases announcing donations to the relief effort following the December 2004 tsunami in Southeast Asia using a sample of 79 U.S. companies. Overall, Patten's results also support Godfrey (2005) who claims that philanthropic giving needs to be interpreted as being a genuine manifestation of the firm's underlying social responsiveness in order to increase firm value.

Hogan, Olson, and Sharma (2015) expand on Godfrey's (2005) work to assess the relationship between a firm's community spending and the scores it receives from organizations that rate firms' CSR and whether community spending and these scores are related to shareholder return. They find differences in the relationship between corporate philanthropy and a firm's scores on various measures of CSR. They also report that firms with a lower probability of bankruptcy, more women on the board, and larger boards tend to give more money to the community. They ultimately find that excess returns are positively related to a firm's governance disclosure score, but negatively related to its social disclosure score. Their data does not support the contention that, on average, community spending as a percent of EBITDA has any effect on the value to the firm.

Dimson, Karakaş, and Li (2015) analyze an extensive proprietary database of corporate social responsibility engagements with the U.S. public companies from 1999–2009. Engagements address environmental, social, and governance concerns. Successful (unsuccessful) engagements are followed by positive (zero) abnormal returns. Companies with inferior governance and socially conscious institutional investors are more likely to be engaged. Success in engagements is more probable if the engaged firm has reputational concerns and a higher capacity to implement changes. Collaboration among activists is instrumental in increasing the success rate of environmental/social engagements. After successful engagements, particularly on environmental/social issues, companies experience improved accounting performance and governance and increased institutional ownership.

Corporate social responsibility has also been credited for attracting and retaining employees. According to Rochlin and Christoffer (2000), there is a "war for talent." They argue that the relationship between CSR and customer recruitment has been around for some time. Many industries use the relationships established from business involvement in civic affairs to spill over into new client and customer development.

### 6.2. Corporate governance and performance

In the U.S., most public companies have what is considered a two-tier system for corporate governance. The first tier is the board of directors sometimes also called the board of governors. The shareholders (owners of the corporation) elect this first tier. The board of directors has both inside directors (those chosen from within the company such as the CEO, CFO, etc.) and outside directors, which are individuals that are external to the company. The board also has a Chairman

of the board who is in charge of the board itself. The overall role of the board of directors is to represent the shareholders to make sure the firm is being run properly and with the shareholders' best interests in mind.

The second tier is the managers of the corporation who do the day-to-day running of the company. The board of directors hires this second tier. Within the second tier, you would have the management team that runs the company. Individuals such as the CEO, COO, and CFO are considered firm management. Management can also be considered insiders on the board of directors. For example, the CEO may also be called the company President and thus is a board insider. Usually, the Chairman of the board is not the company CEO so that the lines of authority are not blurred while trying to carry out the wishes of the board with the will of the managers.

The board of directors also has many standing committees to take advantage of the talents of their board members. According to Chen and Wu (2016), a study of publicly traded firms from 2001 to 2013 evaluated common standing or "operating" committees as part of most board of directors. The authors find the four most common operating committees in U.S. public companies and the percentage of firms who had them were:

- Audit Committee (99.9%) which is responsible for financial oversite of the firm.
- The Remuneration (compensation) Committee (98.1%) which decides on high-level manager's compensation structure.
- The nominating or Governance Committee (84.8%) which evaluates future board members.
- The Executive Committee (21.2%) which has the executive power to speak for the board as a whole.

Bolton (2014) finds a positive relationship between audit committee stock ownership and firm performance in large US firms from 1998 to 2008. According to Bolton, the results persist throughout the sample period, do not weaken after Sarbanes-Oxley, and are robust to controlling for endogeneity between ownership and performance. The research shows no support for a relationship between audit committee independence and firm performance. The author suggests that audit committee stock ownership is an important corporate governance mechanism and potentially a more relevant variable than audit committee independence from a policy perspective.

Von Lilienfeld-Toal and Ruenzi (2014) examine the relationship between CEO ownership and stock market performance. A strategy based on public information about managerial ownership delivers annual abnormal returns of 4% to 10%. The effect is strongest among firms with weak external governance, weak product market competition, and large managerial discretion, suggesting that CEO ownership can reverse the negative impact of weak governance. The authors argue that owner-CEOs are increasing as they reduce empire building and run their firms more efficiently.

Much of the argument around agency theory and executive compensation centers on the short-term mindset of some managers when it comes to firm performance and compensation. Quinn (2018) investigates whether adoptions of executive stock ownership plans coincide with decreased incentives to meet or just beat analysts' near-term EPS forecasts. Firms often assert that ownership plans focus executives on long-term performance. The results suggest that firms use binding ownership plans to shift executives' focus from near-term earnings benchmarks to long-term value creation.

Sur, Lvina, and Magnan (2013) examine how the ownership structure of a firm, specifically the aggregation of the different ownership types within each firm, relates to the composition of its board. Using archival data from a sample comprising 1,487 U.S. firms, the researchers find that the composition of the individual profiles of directors on corporate boards (i.e., independent, affiliated, or insider) match a firm's aggregated ownership configuration (institutional, corporate parent, family-entrepreneur control) even after parsing out the impact of CEO characteristics, firm size, and performance. Each type of ownership has differing imperatives and may prefer different types of directors to fulfill their governance needs. This study shows that ownership and board composition are not substitutable governance mechanisms as commonly understood, but might be complementary mechanisms.

Weiss and Hilger (2012), analyze the relationship between ownership concentration and firm performance. Using a sample of 1,079 firms from 8 countries they find evidence for a curvilinear effect of ownership concentration on firm performance, which becomes insignificant after controlling for ownership structure, differences in governance systems, and the use of alternative performance measures.

Jermias and Gani (2004) investigate a sample of the U.S. companies listed in the Compustat S&P 500 database, to determine the effects of board capital (directors' educational level, directors' industry-specific experience, and interlocking directorate ties) on the relationship between CEO duality, board dependence, managerial share ownership, and performance. The authors argue that highly qualified board members who possess more board capital will be better at monitoring management and as a result add more value to the firm. The authors find that when the CEO also holds the position of the chairman of the board, the performance is negatively affected and that board capital mitigates the negative effects. They also find that managerial share ownership positively affects performance and that board capital strengthens this positive relationship. The results are consistent with the view that firms benefit from board capital in terms of outside directors' ability to monitor managers and provide advice and counsel to managers.

Zhang and Gimeno (2016) argue that CEOs who are forced to have a longer view of performance due to incentives that have not yet vested will behave more in line with long-term strategic goals for the firm. This behavior is in contrast to CEOs who focus on short-term goals where they have no vesting requirements on their stock-based incentives. The study looked at decisions made by U.S. airlines under quarterly earnings pressure and examined the effect of earnings pressure on competitive behavior under different ownership structures and CEO incentives. The evidence

supports the view that the pursuit of short-term earnings, because of earnings pressure, may be detrimental to long-term competitiveness.

Fahlenbrach (2009a) analyzes the role of executive compensation in governance using proxies for corporate governance of board size, board independence, CEO-chair duality, institutional ownership concentration, CEO tenure, and an index of shareholder rights. The author's results from a broad cross-section of large U.S. public corporations are inconsistent with recent claims that entrenched managers design their own compensation contracts. If a corporation has generally weaker governance, the compensation contract helps better align the interests of shareholders and the CEO.

Fahlenbrach (2009b) evaluated the difference between founder CEO firms and successor CEO firms for equal-weighted investments between 1993 and 2002. Founder CEO firms were shown to invest more in research and development, have higher capital expenditures, and make more focused mergers and acquisitions. The abnormal return of nearly 5% for founder CEO firms persisted even after adjusting for various firm characteristics.

Cheng, Cummins, and Lin (2017) investigate the role of organizational form and ownership structure in corporate governance by examining CEO turnover for U.S. property-casualty insurers. Their sample looked at both public and non-public closely held firms. Family and nonfamily CEOs were also separated to determine the effects, if any, on firm performance. The authors find that the probability of unexpected turnover in control has a significant negative relationship with firm performance. Firms that were governed by a CEO in the family had the lowest turnover rate of any ownership type. Their results support the evidence that organizational structure matters if the goal is to control potential agency costs.

Kryzanowski and Mohebshahedin (2016) use a panel database of the U.S. closed-end funds (CEFs) during 1994–2013 and examine relations between board effectiveness and board structure. CEF boards with higher percentages of independent directors are associated with lower expense ratios and different CEF benchmark-adjusted returns, but not with CEF premiums. The authors find that independent directors are more effective in monitoring and influencing fund performance measures that are less complex and more directly controllable. These results are consistent with theoretical and empirical findings in the literature that interested directors can better monitor and control companies with high degrees of information asymmetry, uncertainty, and require specialized knowledge to operate. Their results suggest that CEFs with higher board ownerships are better aligned with shareholders' interests.

Memili and Misra (2015) examine the moderation effects of corporate governance provisions on the link between family involvement (i.e., family ownership and family management) in publicly traded firms and firm performance. Their data consists of 386 S&P 500 firms. The paper finds support for the hypotheses suggesting the moderation effects of the use of provisions such as protecting controlling owners in terms of their sustainability of controlling status and protecting management legally on the inverted U-shaped relationship between family ownership and firm performance.

Baek, Cho, and Fazio (2016) examine how family firm ownership and management control affect corporate capital structure strategy. They evaluated 200 U.S. public firms in the S&P Small-Cap 600 index from 1999 to 2007. Their results support the argument that, although family ownership has a positive effect on a firm's leverage, family control through the CEO position and equity performance moderate its impact. This paper separates ownership and management control factors to explain why family firms use more or less leverage. This study, thus, reconciles the mixed results of prior studies, which do not differentiate between these two governance factors.

According to Gillan and Starks (2003), institutional investors can also affect the management activities directly as owners of firms or indirectly through trading in securities of such firms. As a result, institutional investors can play a key role in monitoring the management of firms, and their investments or disinvestments in firms can act as an important source of information to other shareholders.

Connelly, Hoskisson, Tihanyi, and Certo (2010) synthesize research from multiple disciplines on different types of owners and offer a unifying framework of governance through ownership. The authors describe the motivations of various types of owners, the tactics owners use to affect firms in which they are invested, and the dominant firm outcomes these owners seek to influence. The authors discuss how increased managerial awareness of diverse owner interests increases owner influence on firm-level outcomes. Their study draws attention to emerging forms of ownership, such as hedge funds and sovereign wealth funds.

## 7. CONCLUSION

It was written thousands of years ago that the want of money is the root of all evil. Sadly, we observe across time, across cultures, and across socioeconomic groups that some people will steal, lie, and cheat for money. As a result, it is imperative that individuals enter into financial exchanges with caution and a goal of reducing the risk inherent in these transactions.

In the United States, we observe an attempt to thwart the potential agency theory behavior of top management by increased oversight of boards of directors and increased regulations at the state and federal levels of government. A response to the corporate scandals of the 1990s and 2000s has been increased corporate governance by boards of directors and regulators to protect shareholders from the actions of unethical managers. As a result of the shift in the U.S. from defined benefit pension plans to defined contribution plans and a desire for increased corporate governance, we observe a significant increase in the financial assets under management by large institutional investors. It is believed these large institutional investors can have a significant impact on the governance, decision-making, and performance of the U.S. publicly traded firms.

Perhaps reflecting the increased corporate governance associated with large institutional investors and state and federal laws, as well as regulations requiring more financial disclosure and transparency, we observe an increasing trend in foreign indirect investment in the U.S. from countries in Europe, Asia, and the Pacific Rim, North and South America, the Middle East, and Africa.

In an attempt to better align the interests of the shareholders and management in the U.S., we observe a trend of increased compensation of publicly traded firms' top executives. This has resulted in an increased disparity between the compensation of top management teams and the firms' hourly employees.

Mergers and acquisitions can be viewed as a transfer of ownership based on expectations of future performance and current market values. In the U.S., we observe the number of net mergers and acquisitions announcements are positively related to stock market indices and forecasts of future economic activity with cash being the preferred method of payment. One area of future research is to develop a better understanding of M&A transactions involving privately held firms. Although most academic research on mergers and acquisitions centers on publicly traded sellers, they made up only 4% of all M&A announcements in 2016. However, very little is known about the transactions involving privately held firms which made up 59% of all M&A announcements in 2016.

Another area for future research is to assess whether the diversity characteristics of a firm's top management team and board of directors have an impact on the financial performance of the firm. In the U.S., we observe a low but increasing trend in female top executives at publicly traded firms peaking at 8.1% in 2014. We expect biases against women and other minorities will be lessened in the future which should result in improved financial performance as long as one set of biases is not replaced with another.

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