International Research Journal of Finance and Economics
ISSN 1450-2887 Issue 81 (2011)

http://www.internationalresearchjournaloffinanceandeconomics.com

The Importance of Relationship Management with Small Shareholders in Value Creation: Illustration by French and Tunisian Backgrounds

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Abstract

The aim of this paper is to analyze the behavior of executives and shareholders in terms of value creation. This analysis focuses on the strategies used in managing the relationship between shareholders and managers and especially loyalty. Referring to a sample of French and Tunisian companies over a range from 1998 to 2006 and by adopting the panel data method, the result of our regression shows that shareholder loyalty positively affects value creation. However, a structure dominated by non-financial debt, as well as small businesses are factors that motivate managers to maximize shareholder wealth and create more value.

Keywords: Relationship Management - Loyalty - Creating Value
JEL Classification Codes: G32 - M31

1. Introduction

Despite an uncertain environment, the number of individual shareholders is on the rise. Given the importance of this population, the financial professionals postulate that it is important to create a special relationship with retail investors. This link could guarantee the company a market share of high and sustainable growth. The presence of a shareholder holding a significant share is an effective control of management. High control normally provides an important power and forces the manager to avoid decisions that might be awkward. However, the presence of one or more shareholders holding a significant stake does not solve any problems because of conflicts of interest between managerial power and legal authority can still arise and influence the decisions of managers. Paradoxically, a shareholder may lose interest in a business in which the investment managers is high. However, as companies usually require external financial flows, profit-sharing of these small shareholders has become an axiological position in corporate strategies. It is in this context that the question of property right balance active and passive ownership, which raises the issue of dosage political loyalty[1] of individual shareholders. Such loyalty is an indispensable asset to facilitate access to finance for companies (cost minimization).

Incentive for its role in the relationship between shareholders and managers in large listed companies, retention leads managers to act in accordance with the interests of shareholders, which limits the problems of conflicting interests and encourages both parties to work in the overall goals of the company. The cooperation of these two parties applies to the process of value creation. Generally, the will to work towards maximizing the value of the company, by reducing agency costs, coincides with the goal of having corporate governance transparent and efficient. Value creation is a business success and is a management tool for managers.

In the first part, we introduce. In the second part, we present a brief literature. An empirical investigation is presented in the third part. We concluded in the fourth part.

2. Literature Review

The theme of creating value constitutes today a growing interest in the fields of management science. This theme is at the root of many researches and has become the new credo of business leaders. It was revived by the work of Hax and Majluf (1984), Rappaport (1986), Copleand, Koller and Murrin (1990), Feltham and Ohlson (1995), to occupy a gradually position in research and axiological issues inherent in the firm and its evolution. It is no longer a simple theme in fashion, but it is now a reality with the world of finance will have to rely and to which companies will get used to meet the information requirements of investors. They must address the evaluation of past and future capacity for value creation (Albouy 1999). Sternum and Desreumaux (2001) define value as a concept, pervasive in economics and management, but largely fragmented and that the variety of endings could be explained by the division of areas of science. For several years, the theme of value creates a current that is reflected in the plethora of speeches devoted to it and building a growing training or induction for managers.

This is the single most cited, and on a practical level, it is more to shareholders in the financial literature because the financial environment of the company is marked by a strong dispersion of capital. This focus on the shareholder may be explained by the importance of these stakeholders in the company's growth. In the event that the stock market performance of the company is low, shareholders have the ability to consider the foundation of the company. The pursuit of shareholder loyalty has become the ultimate goal for the company whose capital is dominated by individual shareholders. Several studies have shown that it is necessary to work in the retention and stabilization of this population.

In return, shareholders retain their shares because they trust in the strategies of leaders who will be encouraged to manage the business in accordance with the interests of shareholders. As long as managers are chosen from the stockholders to manage their capital and generate capital gains, they put shareholder value at the center of their concerns. Indeed, many political leaders are taking measures to build trust: they ensure the equal treatment of shareholders, increasing their responsibility to disclose relevant information on the results of the company to ensure transparency and the credibility of the image, etc.

However, value creation is the primary objective of managers and shareholders of a company. In this context, Gohen (2006) states that it is not an end in itself, value creation is the result of a

[1] The shareholder loyalty is a concept emerging late in finance. "Shareholders are those believers who trust in the company, which creates in them a sense of fairness. This feeling causes the attraction of new shareholders already close to the small shareholders. However, for other companies, the shareholder is one who faithfully maintains his long titles and is satisfied with the returns of their investments and services provided by the company, it would even be willing to "buy new" Ati A . and Their S. "Analysis of the challenges of retaining the individual shareholder: Illustration by French and Tunisian backgrounds," Article to be published in the journal Management Science.

strategy implemented in the company. This author states that the main financial and operational strategies are generating value:

- The intrinsic development of the company.
- Market growth: the investor chooses to invest in a company owned by a developer who creates market growth of the latter. The positioning of the company in such a market policy therefore forms the most important in value creation.
- Leverage: debt financing does not create value because it increases the risk for the company. In the event that risk is well controlled, there would be value creation by the difference between the interest rate and return on capital.
- The capital increase: in this case, value creation is carried out through to shareholders who purchase shares, the lowest possible price and sell at the highest price.
- Growth: growth strategies are key to creating value through innovation and improved management practices. These strategies allow the company to position itself competitively, increase the profitability of invested assets, control risks, and finally to optimize the capital invested.

In addition to these strategies generate value, Oguzhan and Erdal (2009) highlights the main contributions of the shareholders and managers in the process of value. They point out, first, that in addition to financial contributions, shareholders active behavior on the board of directors. They are regarded as true stakeholders in the company. They support and stimulate the creation of value through their specific roles, their strategic visions and their responsibilities. In addition, individual shareholders are represented on the board and give their opinions on the strategies of the company. They criticized the privileges of officers and errors and strategies call for change on behalf of the interests of other shareholders and creating value. Obviously, in some cases, they make decisions regarding the replacement of the manager[2] who has not qualified. It is the active role of shareholders who join the company to enable it to perform well in order to provide more value for their investment. Shareholders can precisely adopt new policies and provide them with good practice in terms of rigor and transparency.

On the other hand, Pan et al (2007) show that leaders are seen as one of the essential foundations of corporate success. In a 2008 study on the functions of managers, Pan shows that they are knowledgeable and skilled and have an overall view on the market of the company they share with all of the owners and staff the company.

The manager is always present when questions or problems within the company. It adopts appropriate strategies, in terms of communication and explanation, to reduce conflicts and problems of uncertainty. Pan, Ming-Shiun, et al (2007) corroborate and other personnel of the company, the manager has an important role in creating value through its ability to join the teams on a project to create of value.

Relations between managers and shareholders are characterized by transparency, trust, proximity, availability and complementarity. Managers have regular contact with providers of equity and are very keen to make a permanent satisfaction to shareholders. For this reason, they invest in communication strategies[3] on the value created to protect the company against the risk of misleading investors and financial deal with the negative impact on the share price. However, the response to shareholder information is to strengthen the credibility and the company's ability to attract long-term financial investors and a better market price. It should develop a marketing of securities and paying attention to the non-financial indicators. Indeed, shareholders face a more demanding and more professional, it is important to liaise with the financial market: in other words, understand the

[2] Consider the case where shareholders of Eurotunnel are highly skilled and have the ability to assess risk investitionnel. These shareholders are rational people vis-à-vis their interest in maximizing the usefulness of financial assets by its behavior in the company. In 2004, they overthrew the management team. This is considered the first in the history of French finance. Former CEO Jaces Millet is replaced by Jacques Gounon.

[3] The indicators of value creation are published in the letter to shareholders, annual report, document, shareholders' guide, message from President ...

expectations of shareholders, the strategies followed by other companies keep their promises and know.

It is clear from the theoretical framework developed; the best ability of a firm to create value based primarily on reducing agency costs and increasing profits, that is, the redefinition of relations between shareholders and managers. The loyal shareholders who are increasing their share of ownership of shares in the capital of the company. They are encouraged to retain their titles as long as: changing their buying behavior, reducing their price sensitivity, creating a stable and profitable advantage for the company over competitors.

However, the value is determined based on investor expectations that have a specific profile (Durant, Sanghani and Newby, 2006). However, the behavior of shareholders raised a long time, many research projects. It is well understood by research in behavioral finance. The start was given in 1738 by the famous paradox of Bernoulli. Subsequently, the issue of risky choice has been resurrected by Irving Fisher (1906 and 1930) and John Hicks (1931). In 1944, Von Neumann and Morgenstern took over the work of Bernoulli (1738) and added the model of expected utility which is characterized by the rationality of investors at risk.

In general, on this subject, most studies are descriptive in the sense that they are interested in the expectations and behavior of investors ((Goetzmann and Kumar (2001); Broihanne, Herle and Roger (2005)). D 'Further work stands only a psychological portrait. We cite, for example, the work of De Bondt, and Zurstrassen Arzeni (2002) and Glaser (2003). De Bondt, and Zurstrassen Arzein (2002) establish a psychological portrait of the individual investor in Europe. They identify the main configurations of values and beliefs of European investors hold a small number of titles. Their study is based on the standard method of investigation to investors who have invested in shares, bonds and mutual funds. This research was seen as the first on this subject in Europe. It was conducted during the period March / April 2001.

Analysis of survey results to suggest that individual shareholders are qualified individuals who manage their own portfolios, its investment choices based on information published in the press. And prefer to invest in shares that has a greater potential for long-term performance. In addition, the studies of Durand and Newbj Sanghani (2006) fall within the same context as that of De Bondt, and Zurstrassen Arzein (2002). These authors also establish a profile of individual investors in Australia with a questionnaire completed in 2005 and sent by Mail. They provide results on the personal traits of the individual investor and show that it invests in high technology sectors, information and communication. Shareholders diversify their portfolios and they are older and more affluent, the less they engage in transactions in securities. These authors add that the majority of transactions involve the purchase and sale of foreign shares. The results found are then compared with those entered in the study by De Bondt (1998).

Beyond the psychological and demographic indicators identified in the research findings cited above, further research is devoted to analyzing the behavior of individual shareholders. Thus, Broihanne, Merli and Roger analyze the behavior of individual investors through previous empirical studies conducted in this area. These authors show that prospect theory[4] can be an alternative in terms of analyzing the behavior of small shareholders.

In addition, the problems of diversification are also studied by Oehler et al (2005) who showed in their studies, that investors have the ability to invest in certain securities. At another point, the effect of disposition, Shefrin and Statman presented by (1985), was studied by Cohen et al (2007) through a sample Chinese shareholders sell their shares if the price rises and buy s' it down. Portfolio management is suboptimal. Winning stocks have high performance (Boolell-Gunesh, 2008).

It should be noted that despite the extensive research conducted at the request of several organizations such as TLB, Euronext, the Bank of France or of the institutions of polls (Ipsos, TNS-

[4] Prospect theory as a descriptive model of decision making at risk. It is the source of two major behavioral predictions: increased risk aversion after a gain and reduced it after a loss. This theory emphasizes the dynamic nature of risk management.

Sofres for example) on the characteristics of individual investors, there a limited number of empirical studies that address this issue.

The study-Gunesh Boolell (2008) is considered the first research conducted in France on the individual shareholders. This research is based on a sample of 92 603 individual shareholders operating with an online broker for the entire period 1999-2006 and describes the characteristics of this population, the nature of transactions and the portfolios held. The results show that documented the French investor is a man living in the Ile de France, 42 years old and investing in shares, warrants and bonds. Most investors realize the sample, on average, six operations throughout the year. Transactions focus on the French securities; increase their holdings during the period of the study which means that investors diversify their portfolios. Finally, the French shareholders are very confident in the strategies of managers.

Furthermore, in studies about the behavior of individual shareholders, we report an analysis provided by Industry Canada in 2000 which deals with patterns of investments and profits of individual investors. Research has shown that small shareholders have a good education and considerable experience. These investors generally hold a full time job and do not have enough time to place their assets directly. So they turn to intermediaries to invest. They are also attracted by the potential of the new product or technology and personnel policies of the company. Canadian investors are the source of funding for the largest businesses.

Tunisian financial market, a study was conducted in 2001 by the Financial Market Council (CMF)[5] with 47 840 investors. The 4178 valid responses can imagine a young investor with a high level of education, living in Tunis or in Greater Tunis. Most investors place their assets in common stocks and, to a lesser degree, in diversified portfolios. The average length of detention is, in general, more than one year. Tunisian investors get the information through stockbrokers and with their environment, which means a lack of financial literacy of investors in Tunisia.

According to the findings of research on individual investors, we conclude that the individual investor is characterized by bounded rationality and rests on irrelevant information; their decisions are between the gain and loss. They have a great tendency to overestimate the chances of success and the probability of realizing capital gains. These investors are subject to bias of over-confidence.

In connection with the predictions of the theoretical framework developed above, the main hypothesis can be questioned*: Is the shareholder loyalty can be an indicator consistent with value creation.*

3. Empirical Analysis

This section analyzes the effect of retention on creating shareholder value. The main hypothesis is that the loyalty of shareholders may be an indicator consistent with value creation. This hypothesis will be tested to the two samples of French and Tunisian companies.

3.1. Methodology and Model Specification

Our study covers the major French and Tunisian, the number of individual investors is increasing. These include the same sample used in previous work on the loyalty of shareholders. Remember that it is composed of forty French companies listed on the Paris stock exchange and forty Tunisian firms listed on the Tunis Stock Exchange during the period 1998-2006.

The model can be written as following:

$$\mathbf{MVA_{it} = a_0 + a_1 Loyalty_{it} + a_2 T_{it} + a_3 Lev\ it + a_4 OP\ it + a_5 VACA_{it} + a_6 Var_{it} CA\ it\ a7 + a_7 WI_{it} + \varepsilon\ it}$$

*Wh*ere:

[5] Study conducted by Dellagi H. Hammami S. Ben Ahmed and K. (2001): "The Tunisian investor behavior," The Financial Market Council (CMF), Department of Studies and Statistics.

α_0: a constant, α_1, α_2, α_3, α_4, α_5 , α_6, a_7 are the coefficients of independent variables that are to be determined.

MVA: Market value added

Loyalty it: Loyalty contains the variables trust, satisfaction, length of ownership of shares, the attraction of new shareholders and the adoption of a retention strategy

T it: Size

Lev it: Financial Structure

OP it: Investment opportunity

VACA it: Earnings power

Var CA it: Dynamic

WI it: Labor productivity

ε it: the error term.

The definitions and measurements of the different variables of our study are defined in table 1 appendix 1[6].

3.2. Descriptive Analysis

Table 1: Descriptive analysis for the case of listed companies

Variables	Mean (SD)			
	Number of observations	**French companies (N=40)**	**Number of observations**	**Tunisian companies *(N=40)***
MVA	349	27.7 *(108.27)*	360	0.559 *(0.704)*
Strategy	360	0.8 *(0.4)*	360	0.85 *(0.35)*
Attraction	360	0.375 *(0.484)*	360	0.35 *(0.47)*
trust	360	0 .6 *(0.49)*	360	0.5 *(0.501)*
Satisfaction	360	0 .45 *(0.498)*	359	0.5 *(0.501)*
Conservation	360	0.475 *(0.5)*	359	0.55 *(0.498)*
T	360	1.49 *(0.25)*	359	0.05 *(0.005)*
Lev	360	3.23 *(27.37)*	349	3.83 *(5.95)*
Op	360	0.1 *(0.49)*	360	-0.09 *(0.59)*
VACA	359	0.273 *(1,009)*	360	1.52 *(18.12)*
Var CA	359	5.96 *(71.72)*	360	0.175 *(1.1)*
WI	359	0.0009 *(0.003)*	360	0.00017 *(0.00018)*

The tables below show the descriptive statistics of variables used in our empirical analysis for all companies of the samples. We find that: The variable to be explained, MVA, has, in French companies, an average value higher than that of Tunisian companies. The loyalty variables have mean values similar in both samples and vary between 0.35 and 0.55. In the Tunisian enterprises, the strategy to individual shareholders is that of stabilization. Investment opportunities have an average lower in Tunisian companies, whereas French firms the average is 10%.

Following these initial descriptive results, we will adopt the technical of panel data to analyze the data collected, to assess the variables supposed to influence.

Two estimation methods were then compared: the approach to fixed effect and random-effects approach. According to the Hausman test and the Breusch - Pagan, we will retain the error of the estimate. But we will first perform the test for the presence of an individual effect from the Chow test.

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[6] For more detail see table 1 appendix 1

3.3. Various Tests[7]

The results of the Chow test show the presence of individual effects in the three samples.

For the Hausman test, is it to specify whether the model have a fixed or random individual effect? The Hausman test is not significant in the case of Tunisian and French. We shall therefore apply the random effects specification for all three companies.

The probability of the Breusch-Pagan statistic shows that the random effects are globally significant at 1%, hence we use the appropriate statistical treatment through the random effect estimate in the case of French companies listed and traded Tunisian and unlisted.

3.4. Result of Regression

Table 2: Source of value creation for the case of listed companies

	French companies	Tunisian companies
	MVA	MVA
Explanatory Variables	**Coefficients (z- statistic)**	**Coefficients (z- statistic)**
Conf	0.131*(0.2)*	-0.083 *(-0.55)*
Sati	-0.74 *(-1.17)*	-0.159 *(-1.08)*
Attrai	0.556*** *(2.08)*	-0.366** *(-2.02)*
Conser	0.99** *(1.66)*	0.352** *(2.45)*
Strat	0.74** *(1.86)*	0.422** *(1.99)*
T	-2.2** (-1.96)	-0.379*** *(-6.03)*
Lev	-0.424(-1.46)	-0.337 *** *(-4.82)*
Op	0.009 (0.61)	0.0285 (0.67)
VACA	-0.14 *(-0.34)*	-0.076*** *(-3.11)*
Var CA	0.262*** *(4.25)*	0.014 *(0.78)*
WI	2.46** *(1.84)*	-1.14*** *(-3.7)*
Number of observations	358	360
Wald Chi-2	35.68***	113.99***
Prob> Chi-2	*(0.0002)*	*(0.0000)*

*, **, and *** indicate the level of significance respectively at 10%, 5% and 1%.

The table 2 contains the regression of the dependent variables of our model for the three samples. The results found, create the following remarks:

For the policy of creating economic value of French listed companies based on five levers that are:

1. *Dynamic*: the positive and significant at 1% of the coefficient Var shows the importance of increased sales in improving business operations. Indeed, the increase in turnover improves the ability of companies to add value to achieve more growth; more control the market ... This variable has also confirmed its significance in the work of Pariente, and Ducassy Martinez (2002).
2. *Labour productivity (WI):* the result of regression shows a positive significance at the 5%, which implies the ability of employees to generate added value beyond the cost of capital and generate more value.
3. *The size (T):* the negative and significant coefficient of the variable size shows that large firms have a weaker performance than those obtained by small.
4. *loyalty strategy (Stra):* the variable strategy affects positively the value creation. Informational strategies adopted by listed companies to retain shareholders particularly attractive for new shareholders and increases the duration of holding of securities. Thereby supporting the relationship with them, encouraging the increase in value.
5. *Loyalty*: Loyalty variables influencing value creation are:

[7] For more detail of the results of various tests see appendix 2

- The attraction of new shareholders (attractive): a communication policy for reliable and transparent information enhances the credibility of management and the ability to attract long term investors.
- The holding period for long-term actions (Cons): The publication of annual reports and financial statements is supposed to improve the quality of information and help decision making.

For the Tunisian companies, the variable size and strategy that affect the value creation, we find:

1. *Labour productivity (WI):* the estimation of this variable shows a negative coefficient significant at 1%. This result highlights the incompetence of employees to generate greater added value than the cost of capital. This reduces the value created.
2. *The ability beneficiary (VACA):* this variable is negatively significant at 1%. This implies that companies do not have the ability to achieve the level of productivity achieved by the sector average.
3. *Leverage*: the coefficient of leverage is negatively significant at 1%. Indebtedness influence business performance and is an incentive for executives to maximize their investment decisions.
4. *Loyalty*: in this case, the variables that affect the value creation is the attraction of new shareholders and the long-term securities.

The positive and significant coefficient of the holding period for long-term shareholder highlights the fact that leaders are working fully to the maximization of shareholder wealth and act in accordance with their interests by encouraging them to keep titles in the long term and vice versa.

The attraction of new shareholders close to existing shareholders reduces the level of value created because this retention requires the implementation of mechanisms and strategies of information, which increases the cost of communication to these new shareholders (significant negative coefficient at 5%).

For the most influential variables on the process of creating economic value in unlisted companies are earning power, employee productivity, size, behavior faithful and stable shareholders.

At 1% level, the variable *PWAC* is associated with a negative coefficient, implying that unlisted companies are not competitive. These companies are not able to achieve average productivity level achieved by their sectors. At the top level of significance, joins the creation of value the variable *Labour productivity (WI)* whose coefficient is positive. The added value of employees is more important. The variable *SIZE* exerts a negatif and significant effect at the 1%. This result corroborates those obtained in the case of listed companies, which manages to show that even in the case of listed and unlisted companies, smaller organizations show higher returns than those of larger sizes. This finding is interpreted by the difficulty of maintaining effective mechanisms for incentives in large companies. *Stability* reduces shareholders' value creation (negatively significant at 1%). Such behavior of passive shareholders in the management process by abstaining from them to exercise their voting rights, and their commitment in controlling the lower officer, lead to high costs and ineffective control of the activities of officers; which hinders the creation of value and goals of the company. In other words, in the absence of control, the leaders will focus on benefits instead of working to improve business operations. Indeed, the non-monetary benefits made by the directors to shareholders are likely to ensure a climate of confidence that this relationship will support and participate in the process of value creation.

4. Conclusion

The main interest of this work lies in its contribution to the analysis of the behavior of executives and shareholders in creating value in terms of strategies used in managing the relationship between shareholders and managers.

We identified the characteristics of French and Tunisian companies in terms of ability to create value over a time horizon of nine years (1998-2006). We have reviewed the behavior of executives and shareholders in the value creation. The selected samples are characterized by their good potential for investment and deploy cost-effective management strategies related to individual shareholders, generating value during the study period. Our results clearly emphasize the role of loyalty in the process of value creation accompanied by the other sensors to create values that are the size, leverage, employee productivity, earning power and opportunities investment.

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Appendix 1

Table 1: Definitions and measurements of variables

Variables	Mesures	Symbole
Value creation	It is the difference between the value market which corresponds to stock exchange capitalization (a number of shares * price) and the book value of the stockholders' equity	**MVA**
Loyalty	is a dummy variable equal to one if loyalty means trust, and zero otherwise	**Conf**
	is a dummy variable equal to one if loyalty means satisfaction and zero otherwise	**Sati**
	is a dummy variable equal to one if loyalty means the conservation of detention and zero otherwise	**Conser**
	is a dummy variable equal to one if loyalty means the attraction of new shareholders and zero otherwise	**Attrai**
Loyalty strategy	is a dummy variable equal to one if the company adopts a loyalty strategy and zero otherwise	**Strat**
Size	This is the log of total assets.	**T**
Labor productivity	This is the value added, decreases the cost of capital (VA-WACC)/, based on the number of employees	**WI**
Dynamic	This is the change in sales.	**Var CA**
Earnings power	is the ratio of the change in value added (VA) on the change in sales (CA).	**VACA**
The investment opportunity	is the ratio of book value (VC) and market value (MV).	**OP**
Financial Structure	This is the ratio of debt in the medium to long term, to total equity.	**Lev**

Appendix 2: Results of Various tests

Table 1: Chow Test (Test the presence of individual effect)

	French companies	**Tunisian companies (listed)**
Test Fisher	15.26***	71.63***
Prob > F	(0.000)	(0.000)

*** Significant at 1%.

Table 2: Hausman test (fixed or random effect)

	French companies	**Tunisian companies (listed)**
Test de Chi-2	10.60	3.05
Prob>chi2	(0.1015)	(0.3844)

Table 3: Breusch-Pagan test

	French companies	**Tunisian companies (listed)**
Test de Chi-2	538.85***	135.88***
Prob>chi2	(0.000)	(0.000)

*** Significant at 1%.