Corporate Cultures and Governance:
Ownership, Control and Governance of European and US Corporations

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This paper draws extensively on the introduction, co-authored with Marco Becht, to a recently published book “The Control of Corporate Europe”, eds. F. Barca and M. Becht, Oxford University Press, 2001.
Abstract

This paper reports substantial differences in the ownership and control of companies across countries both in terms of concentration of control and the type of investor exerting control. It reports significant differences not only between Anglo-American and Continental European systems but also between the UK and US and within Continental Europe. Voting blocks are concentrated at levels at which regulation confers particular control benefits. This suggests a relation between regulation and the structure of ownership of companies that goes beyond existing “over-regulation” or “minority protection” theories. The paper argues that ownership structures are less relevant to traditional agency problems than to the nature of corporate activities. Differences in systems may therefore reflect the industrial composition of economies and the evolution of systems may be driven by the emergence of new technologies. Regulation should therefore be sensitive to both the different and changing needs of corporate sectors across countries and time.

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1. Introduction

Until a few years ago, international comparisons of financial systems focused on the financing of firms and, in particular, the role of banks in funding companies. Distinctions were drawn between supposedly bank oriented financial systems, such as Germany and Japan, and the market oriented systems of the UK and US.

Closer analysis revealed the fragility of these distinctions. Mayer (1988), Edwards and Fischer (1994) and Corbett and Jenkinson (1996) noted that the amount of lending coming from German banks has been modest over a long period of time. Edwards and Fischer (1994) argued that there is little support for the conventional wisdom that German banks are actively involved in monitoring and controlling corporations.

In the case of East Asia, in particular Japan, research focused on the relative performance of keiretsu and non-keiretsu companies (Aoki, 1990; Nishiyama; 1984; Prowse, 1992; Kaplan, 1994). Initially it appeared that closer bank-firm relations in keiretsu groups are reflected in fewer credit constraints and the provision of more financing during periods when companies are in financial difficulty (Hoshi, Kashyap and Scharfstein, 1991). However, this view has been increasingly questioned as the performance of the Japanese economy has deteriorated. Kang and Stulz (1997) reported that bank dependent firms suffered significantly larger wealth losses and invested less than other firms during 1990 to 1993 when the Japanese stock market dropped appreciably. Weinstein and Yafeh (1998) recorded that close bank-firm ties increased the availability of capital to Japanese firms but did not lead to higher profitability or growth because of banks’ market power.

The distinction between bank and market oriented financial systems is therefore fragile. In contrast, there are pronounced differences in ownership and control of corporations that are robust to close scrutiny. This paper begins in section 2 by documenting these differences drawing on information that has recently become available in response to the disclosure requirements of the European Union Large Holdings Directive (88/627/EEC).
The observations made in section 2 raise four sets of questions. Firstly, what are the causes of these differences; secondly, what are their consequences for corporate behaviour and performance; thirdly, are these differences going to persist or is there evidence of convergence; and, fourthly, what are their implications for conflict, competition and co-operation between Europe and the US. These issues will be discussed in turn in sections 3 to 6. Section 7 concludes the paper.

2. Corporate control

It has traditionally been difficult to measure the ownership and control of European countries because of the importance that investors and firms attach to privacy. In Austria, Belgium, Denmark, France, Germany, Luxembourg, the Netherlands, Portugal and Spain most listed companies issue bearer shares in which ownership and voting power are hard to trace. Even in countries with registered shares - Finland, Greece, Ireland, Italy, Sweden and the United Kingdom - company law and securities regulations do not always force companies to provide access to share registers or shares might be held in nominee accounts. Even when the names of the beneficial owners are known, the share register provides no information on voting pacts and other arrangements that tie individual stakes into blocks of votes cast by the same person or entity.

The process of recording ownership and control has been considerably facilitated by a new standard that applies throughout the European Union and provides for the disclosure of voting blocks in excess of at least 10%, and sometimes 5%.

2.1 Concentration

Table 1 reports the proportion of votes controlled by the largest voting block in eight countries. In 50% of non-financial listed companies in Austria, Belgium, Germany and Italy, a single blockholder (an individual investor or group of investors) controls more than 50% of voting rights. In 50% of Dutch, French, Spanish and Swedish companies, more than 43.5%, 20.0%, 34.5% and 34.9% respectively of votes are controlled by a single blockholder. In contrast, the median blockholder in the UK controls only 9.9% of votes and in the United States the median size of blockholding
of companies quoted on both Nasdaq and NYSE is less than the disclosure level of 5%.

[Insert table 1 here]

The picture looks very different when one goes down to the second and third largest blocks (table 1). The median size of the second largest voting block is 2.5% in Austria, 10.2% in Belgium, 5.9% in France, 7.6% in Italy and 8.7% in Sweden. In Germany it is below the disclosure level. The median size of the third largest voting block is 4.7% in Belgium, 3.4% in France, 3.0% in Italy and 4.8% in Sweden. In both Austria and Germany it is below the disclosure level. The size of voting blocks therefore decreases rapidly beyond the largest shareholder. Voting power is therefore concentrated on the Continent not only because of the existence of large blockholders but also because of the absence of other voting blocks.

In the UK, the median size of the second largest block is 7.3%, and of the third largest block is 5.2%. The size of the largest block is therefore appreciably smaller in the UK than on the Continent but the size of blocks does not decline very rapidly thereafter. Indeed, the third largest block and beyond is larger in the UK than any other country in this study. Even beyond the tenth largest blockholding, the mean voting block in the UK is greater than 3%, whereas it is below disclosure levels in virtually all the Continental European countries in this study. On the Continent, the largest block holder exerts dominant voting control in relation to other block holders. In the UK, no individual block holder in general exerts dominant control; instead it can only come from coalitions of investors. The situation is the same in the United States but the potential coalition to exert effective control must be even larger than in the UK.

Voting power is much more concentrated on the Continent than in the UK or the US. Coalitions between shareholders are required in the UK and US to exercise control.
2.2 Cumulative control

Figures 1 to 9 show the cumulative distributions of largest voting blocks (from smallest to largest) in listed companies in seven European countries and for NYSE and NASDAQ companies in the US. The figures report the fraction of companies in a country with largest blocks less than the values reported on the vertical axis. A cumulative distribution close to the 45° line reflects a uniform density of firms by voting blocks. A distribution above the 45° line reflects a preponderance of large voting block companies and a distribution below the 45° line indicates a large amount of dispersed voting control.

[Insert figures 1 to 9 here]

In Germany, the cumulative distribution is above the 45° line; in Austria, Belgium, and Italy, the distributions are close to the 45° line. In the Netherlands and Spain they are below the 45° line. But the real contrast is between the UK and US on the one hand and Continental Europe on the other. The distributions for firms in the UK and US (both NYSE and NASDAQ firms) are very similar. In the US, a majority of shareholdings are below the disclosure level of 5% and there are very few majority voting block companies in either country.

Still more interesting are the concentrations of firms on the distributions. In Austria and Germany there is clear bunching of firms around 25%, 50% and 75% voting blocks. These correspond to significant voting levels in both countries (blocking minority, majority and super-majority voting). In Belgium and Italy there are concentrations just in excess of 50% voting blocks. In the UK, there are few blocks in excess of 30%. This corresponds to the level at which mandatory bids have to be made for all the shares of a target company. Takeover rules have therefore discouraged the accumulation of share blocks in excess of 30% in the UK. Shareholdings in excess of 10% and 20% in the US have regulatory control implications (in terms of disposal of shares and liabilities for federal law violations). This is consistent with the concentrations of ownership of US firms below 10% and 20% and the small number of shareholdings in excess of 20%.
2.3 Control groups

Not only does scale of corporate control differ appreciably across countries but so too do the parties who exert it. Table 2 shows the number of blocks and the mean, median, minimum and maximum size of blocks held by different classes of investors in Austria, Germany, Italy, Spain, the Netherlands and the United Kingdom. Figures 10 and 11 show the number of reported blocks owned by different classes of investors in UK, German and Austrian companies.

[Insert table 2 here]

The UK: As is well known, financial institutions, pension funds and life insurance companies are the dominant class of shareholders in the UK. Figure 10 records that they hold 62% of the recorded blocks in the UK. While financial institutions dominate in terms of numbers of blocks, table 2 records that the size of blocks held is relatively small. The median size of blocks held by insurance companies is 4.0% and by investment and pension funds is 7.0%.

[Insert figure 10 here]

Austria and Germany: Figure 11 shows that in Germany and Austria, families and individuals and other companies have the largest blockholdings. In Germany, individuals and families hold 32% of blocks, other companies 28%, trusts and holding companies 21%, financial institutions 17% and government 3%. In Austria, individuals and families hold 45\(^\circ\) of blocks, companies 36%, financial institutions 11% and government 9%. The median size of block held by families is 26.9% in Germany and 26.0% in Austria. The median size of blocks held by companies is much larger than that of families in Germany (61.6%) and somewhat larger in Austria (39.4% for domestic firms).

[Insert figure 11 here]

Italy: Table 2 records a dominant role for families and domestic firms in Italy. The Italian chapter records the importance of pyramidal structures. They are primarily associated with holdings by families, coalitions of corporate shareholders and the
state. Financial institutions, including banks, have only played a limited role in the ownership of Italian companies.

The Netherlands: In the Netherlands, there are a substantial number of blocks held by financial institutions, in particular insurance companies.

Belgium: Foreign ownership is an important feature of Belgian corporate control, in particular from France and Luxembourg. Control is frequently exerted via pyramid structures and, as in other Continental European countries, a range of anti-takeover devices are employed. The case of Solvac illustrates these (see figure 12). Solvac is a listed company but has registered shares that can only be held by private investors. Solvac S.A. has entered into an agreement with Sofina S.A., Deutsche Bank AG and Générale de Banque S.A. to ward off any hostile takeover bids for Solvay S.A. Sofina S.A.is controlled by the Boel, Solvay and Janssen families.

[Insert figure 12 here]

Spain: In Spain, families and firms are again the largest holders of share blocks. The average size of the blocks is similar to that of Italian companies (a median of 16.0% for family holdings and 24.1% for domestic firms). The largest holdings have traditionally been associated with the state.

In sum, financial institutions are the largest holders of voting blocks in the UK but their blocks are small on average. In contrast, in most Continental European companies there are substantial voting blocks in the hands of families and companies and a variety of mechanisms intensifying this through the separation of cash flow and voting rights.

However, there is another feature of corporate control in many European countries and that is the ability of management to entrench themselves. In some companies, there are no identifiable owners or owners are disenfranchised through intermediary institutions or lock-in devices. In Austria, there are a significant number of companies with no identified owner. For example, the holder of the largest block of more than 40% of Bank Austria is an ownerless association, Anteilsverwaltung Zentralsparkasse (AVZ). In the Netherlands, “administrative offices” hold the largest blocks of shares. These issue depository shares that give certificate holders the right
to attend and speak at shareholders’ meetings and to call for extraordinary meetings. But they have no votes; only administrative offices exercise voting rights attached to shares.

An alternative protection device recorded in the Netherlands is to issue preferred shares to friendly investors. These shareholders have the right to make a binding nomination for the appointment of management. “Potential capital” is a further device for preventing transfers of control. They are like poison pills except that issued capital goes to friendly investors, for example foundations, in the event of a hostile bid.

Unilever illustrates the operation of these protection devices (see figure 13). Unilever comprises Unilever N.V. – the Dutch part – and Unilever PLC – the UK part. They trade as a single entity. This is achieved through two holding companies N.V. Elma and United Holdings Limited, which are in turn held by the Unilever companies and have cross-shareholdings in each other. They in turn hold special shares and deferred stock in Unilever NV and PLC respectively. The significance of these special shares and deferred stock is that only they can nominate persons for elections as members of the Boards of Directors of NV and PLC. In other words, elections to the board of Unilever are by two companies fully owned by Unilever. It is said that this is required to “ensure unity of management of the Unilever Group” (Unilever’s 20F declaration page 33).

There are far fewer takeover defences available to companies in the UK, but table 2 reports that there are a large number of share blocks held by both executive and non-executive directors. In the presence of highly dispersed shareholdings these share blocks may provide management with a significant degree of protection.

3. Causes

Over the last few years much attention has been given to the influence of regulation and legal form on corporate ownership and control. Roe (1990) pioneered the “over-regulation” thesis that has been a dominant force in the debate. He argued
that the rise of the Berle and Means corporation in the United States was not simply a response to the forces of economic efficiency but a reflection of populist politics. Concerns about concentration of control, in particular in the hands of such banks as J.P. Morgan, led to a backlash in the imposition of regulation, restricting the involvement of banks in corporate activities. Dispersed ownership therefore resulted from the introduction of regulatory impediments to concentrations in ownership prompted by a populist political agenda.²

The over-regulation argument views the difference between the US and other countries as reflecting impediments to the free choice of corporate structure in the US. However, over the last few years an exactly contrary view has been presented. Far from US corporations being impeded by regulation from choosing appropriate structures, poor regulation and, in particular, weak investor protection undermine the financing of firms in most countries of the world. According to La Porta et al (1997), concentrations of ownership and complex control vehicles are a response to inadequate protection of investors. Faced with risk of exploitation by self-interested managers, investors require powerful mechanisms for exercising control and they do so through holding large ownership stakes in companies and exerting voting power that is disproportionate to the amount that they invest in firms. This argument has been formalised by Bebchuk (1999) and Bebchuk and Kraakman (1999), who present a rent-seeking theory of the evolution of ownership and control and voting power leverage respectively.³

Roe views the US corporation as being weighed down by regulatory restrictions imposed by an earlier political agenda; La Porta et al argue that strong investor protection in the US and some other countries, such as the UK, has allowed external financing to occur on a larger scale than elsewhere. For Roe, the regulatory barriers to, for example, bank participation in corporate ownership should be broken down. For La Porta et al, stronger investor protection is required in most countries of the world.

Recently, Mayer (2000) has argued that regulation affects the dynamics of ownership and control. He considers how the control of dominant investors changes as outside ownership is brought in. Dual class shares, non-voting shares and
pyramids allow dominant investors to retain control as outside ownership comes in. This is termed “a private control bias”. Rules protecting minority investors in particular in takeovers create a “market control bias”. If minority investors can free ride on the control exerted by others then they derive control disproportionate to their investment.

Figure 14 illustrates. It shows that rules protecting dominant investors push the line linking ownership to control upwards to the left. Control therefore declines less than proportionately with reduction in ownership. On the other hand, strong minority protection pushes the ownership: control line down to the right. Control then declines more than proportionately with ownership.

[Insert figure 14 here]

The cumulative distribution plots reported in section 2.2 suggest that regulation has a significant influence on control patterns in different countries. Minority protection and anti-takeover rules have given rise to a market control bias in the UK and US. Weak minority protection and leverage control devices have created a private control bias in Germany and, still more significantly, voting blocks are concentrated around critical levels determined by regulatory rules in different countries.

4. Consequences

There is a similar divergence of view about the consequences of ownership concentration. The most popular view of corporate governance is agency theory: managers run widely held firms in their own interests. As far as possible, incentives are used to align the interests of managers and shareholders, and active monitoring and control of companies are also required. But, as noted by Berle and Means, in the presence of dispersed ownership, investors have little incentive to engage in active monitoring and instead prefer to “free ride” on the monitoring performed by others. Ownership concentrations are therefore required to ameliorate managerial agency problems.
The evidence of the role of ownership concentrations in overcoming agency problems is far from clear. One indicator of the exercise of corporate governance is the extent to which management of poorly performing firms is replaced. Franks, Mayer and Renneboog (2001) report the results of collecting ownership data on shareholdings in 250 randomly selected firms quoted on the London Stock Exchange over the period 1988 to 1993. They classify shareholdings according to type of investor (e.g. financial institutions, industrial and commercial companies and families) and distinguish holdings of directors and their families from those of other investors, for example, financial institutions. They examine how these measures of ownership are related to the disciplining of management of poorly performing companies. They find little influence of either concentration of ownership or type of investor on managerial disciplining.

Franks and Mayer (2001) perform a similar analysis on Germany. They state that “the paper is consistent with a growing body of evidence (Edwards and Nibler (1999) and Kaplan (1994)) that concludes that, while patterns of ownership of German companies are markedly different from those of UK and US firms, corporate control is similar. Furthermore, we find little relation between concentration of ownership and the disciplining of management of poorly performing firms and little relation between the type of concentrated owner and board turnover.”

Even if concentrations of ownership do reduce agency problems, they can still create a second conflict, namely between holders of large blocks of shares and minority investors. Large shareholders can engage in activities that benefit them at the expense of minority investors. In Jensen and Meckling (1976) the owner-manager retains all control rights while selling only cash-flow rights. The most obvious example of such “private benefits” is shifting assets and corporate value through transfer pricing between companies in which large shareholders have an interest. In some countries there are explicit restrictions on these activities, requiring for example, that parent and subsidiary act on an arms-length basis and use market testing to price transactions. In other countries, there are few restrictions.

While the agency theory sees weak owners confronted with strong managers in countries with dispersed ownership, the rent-seeking literature argues that strong
owners in countries with concentrated ownership and/or control exploit weak minorities. In particular, La Porta et al have argued that the latter is the more serious problem confronting most countries and the emergence of ownership concentrations in the face of weak investor protection is a deficiency not an advantage of these systems.

In their study of Germany, Franks and Mayer (2001) find support for this view. They conclude, “the implication of this paper is that the primary distinction between financial markets does not concern the static relation of ownership concentrations to corporate control as suggested by much of the literature but the dynamic aspects relating to the evolution of ownership and control. Even if flexibility in altering ownership through share block sales in Germany is similar to that in the UK and US through tender offers, flexibility in corporate restructuring is lower and is associated with the existence of significant private benefits of control.”

Carlin and Mayer (2000) and Mayer (2000) argue that there is no one dominant system. Different types of ownership and control are suited to different types of activities. They suggest that concentrated ownership benefits activities that require long-term, committed investors. Dispersed ownership benefits short-term investments that require greater flexibility and less commitment. In particular, Mayer (2000) argues that there is a need to match periods for which control will be retained (the “influence period”) with the “realisation period” of projects (the time taken for projects to come to fruition). Too short an influence relative to a realisation period leads to rejection of long-term investments. Too long an influence relative to realisation period leads to inefficient retention of control. Dominant owners are able to retain control over long periods whereas managers facing markets in corporate control with dispersed ownership are subject to short influence periods. The latter therefore promote efficient transfers in control for investments with short realisation periods whereas the former encourage investments in activities with long realisation periods. While traditional manufacturing activities may benefit from the long influence periods that committed investors can provide, new technologies are better suited to the the greater flexibility that dispersed ownership systems can provide.
Choice of system may therefore be less relevant to corporate governance than corporate activities. There is little evidence to date to suggest the superiority of one governance system over another. Instead, there may be a more significant relation of the control systems of different countries with the activities of their corporate sectors. Furthermore, with the emergence of new technologies, the complementarity between systems and activities creates real pressures for change.

5. Convergence

There is considerable change in progress. There is evidence of declining significance of pyramidal structures. The Agnelli group, for example, has disposed of companies operating in chemicals and cement. Takeover legislation requiring a mandatory bid is encouraging concentrations of shareownership around 30%, as has already been documented in the UK. In Germany, voting right restrictions have been eliminated and cross-shareholdings involving banks are expected to be unwound following changes in their tax treatment. In Spain, the significance of the state has declined with privatizations. Some state control has been maintained through golden shares but these have not been widely applied. In Sweden, cross-shareholdings have largely disappeared and dual class shares have been eliminated in many firms. There has been more intervention by minority shareholders in, for example, blocking the merger between Volvo and Renault.

As section 3 noted, there is a close relation between regulatory systems and patterns of ownership and control. The European Commission is at the forefront of moves to harmonize regulation across Europe. It is, for example, exerting strong pressure to create a market for corporate control, which is viewed as central to the development of a single European financial market. A recent report of a high level group of company law experts on issues related to takeover bids, chaired by Jaap Winter, concluded that neither management nor shareholders with disproportionate shareholdings should be able to frustrate takeovers. They proposed break-through mechanisms that would allow acquirors to overcome such defences.
6. Conflict, cooperation and competition

The move towards market control systems away from private control bias is dictated by the view that private control biases are inherently inefficient. They are regarded as diversionary in extracting wealth that should accrue to investors and inefficient in promoting socially wasteful activities. The introduction of market control is therefore regarded as a central component of the modernization of an archaic system of governance that promotes the pursuit of private benefits.

If ownership and control systems were simply about corporate governance, then choice of systems would be relatively straightforward. All countries should converge on the most efficient system of corporate governance. If takeovers are superior to control blocks then control blocks should be disbanded and markets for corporate control promoted. Indeed, if this were the case, it is surprising that anything other than markets in corporate control have persisted for so long.

However, if, as suggested above, there is a complementarity between patterns of control and the types of activities undertaken in different countries then policy recommendations are not so straightforward. The introduction of a European takeover directive will be highly controversial. There is much antipathy towards markets in corporate control on social grounds. But in addition there is concern about takeovers for the short-termist reasons discussed above in relation to “influence” and investment “realization” periods. If different countries have different underlying productive activities then they may well require different control systems. What is suited to one economy may be ill suited to another. While technological changes may be shifting the comparative advantage of systems in the direction of market away from private control bias, this may be of greater relevance to some countries than others.

The critical question then is to what extent should policymakers be seeking to harmonize patterns of ownership and control. As noted in section 3, regulation bears critically on control structures and changes in regulation can have significant effects on ownership and control patterns. For example, if enacted, a European takeover directive would have far reaching consequences for the ownership and control of
European corporations. It would not only introduce a market for corporate control in Europe but it would also significantly diminish the value of differential voting rights associated with dual class shares. It would therefore reduce the “private control bias” of Continental European corporations.

This is appropriate if all countries require similar, market oriented, control structures. If on the other hand, different industrial activities across Europe require a variety of control structures then harmonization of regulation could have adverse real as well as social consequences. Instead of harmonization, countries should then be encouraged to choose their own systems of regulation to correspond with the particular needs of their corporate sectors. Policy makers should be seeking to promote competition rather than convergence between systems and, instead of trying to pick winners, they should be encouraging companies to choose their preferred system of corporate control.

7. Conclusions

This paper has reported a striking contrast of the European corporation with the traditional, Anglo-American view of the corporation. Concentration of voting control is much higher in Continental European companies than in their UK or US counterparts. Control is concentrated not only because of the presence of large investors or core investor groups, but also because of the absence of significant holdings by others. In contrast, in the UK and US, not only are there few large shareholders but also the second, third and smaller shareholdings are not appreciably smaller than the largest. This gives rise to the possibility of effective control through coalitions but not by individual shareholders. Since a typical block in the U.K. is twice as large as in the United States (10% versus 5%), the potential for coalition control is larger in the U.K. than in the United States.

Still more striking than differences in average sizes of shareblocks is the cumulative distribution of the largest shareholdings. In most Continental European countries, there is a fairly uniform distribution of the largest voting blocks. In contrast, in the UK and US there is a strong “market bias” towards dispersed control. However, it would be wrong merely to contrast Continental European with Anglo-
American control. There is a marked variation within Europe, ranging from a “private control bias” in Germany to a modest market bias in the Netherlands and Spain. Still more interesting is the concentration of voting blocks around certain critical levels - blocking minority and super-majority holdings in Austria and Germany and majority control in several other countries.

According to Roe (1994), dispersed ownership and control in the US results from a populist agenda of imposing regulatory impediments on concentration of control in the hands of a small number of investors. According to La Porta et al (1997), the dominance of large shareholder blocks in most countries in the world is a reflection of inadequate investor protection. Roe’s thesis implies that corporate governance deficiencies result from over-regulation while La Porta et al’s implies that improved corporate governance will come from greater investor protection. According to the description in this paper, regulation has affected the entire pattern and distribution of corporate control in all countries. Control is concentrated in forms in which regulation confers particular advantages and shareblocks are centred around levels at which there are significant control benefits.

This may be important in terms of the relation of corporate control to the activities of firms. In principle, market control efficiently reallocates control to those who derive the greatest benefit from exerting it. However, it also limits the period for which control is expected to be retained (“influence periods”). Market control therefore efficiently reallocates control of projects with short “realisation periods” but may discourage the implementation of projects with long realisation periods. According to this view, the relevance of corporate control for real activities is a reflection of the relation of influence to realisation periods. Different types of corporate control and therefore regulatory arrangements are suited to different forms of corporate activities: industries whose investments have short realisation periods thrive in systems with market biases whereas those with long realisation periods benefit from private control biases.

Not only are there differences across countries but there are also differences across time. What is suited to the activities of corporations at one period might be quite different from another. In particular, technological changes are currently
encouraging a move away from private to market control systems. Regulation is significantly influencing this process. The critical question that this raises in the European context is to what extent should the European Commission be seeking to harmonize systems of regulation. The prevailing view is that private control bias is inherently inefficient and that harmonization is critical to the creation of integrated European financial markets. An alternative view is that a “one size fits all” model is not appropriate and, far from attempting to harmonize, the Commission should be encouraging competition between systems by allowing companies to choose the type of regulatory and control system under which they wish to operate.
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FIGURE 1

PERCENTILE PLOT OF LARGEST VOTING BLOCKS IN AUSTRIAN LISTED FIRMS

FIGURE 2

PERCENTILE PLOT OF LARGEST VOTING BLOCKS IN BELGIAN LISTED FIRMS
Figure 3

Percentile Plot of Largest Voting Blocks in German Listed Firms

Figure 4

Percentile Plot of Largest Voting Blocks in Italian Listed Firms
**Figure 5**

Percentile Plot of Largest Voting Block in the Netherlands

**Figure 6**

Percentile Plot of Largest Voting Block in Spain
FIGURE 7

PERCENTILE PLOT OF LARGEST VOTING BLOCK IN UK LISTED COMPANIES

Source: Annual reports for a sample of 250 randomly selected companies.
FIGURE 8

PERCENTILE PLOT OF LARGEST VOTING BLOCK FOR U.S. COMPANIES LISTED ON THE NYSE

FIGURE 9

PERCENTILE PLOT OF LARGEST VOTING BLOCK FOR U.S. COMPANIES LISTED ON NASDAQ
Financial institutions, pension funds and life insurance companies are the dominant class of shareholders in the UK. They hold 62% of the recorded blocks in the UK. Directors hold 24% of the blocks, companies 8% and individuals 5%. For the raw counts, see table 2.
Germany and Austria, families and individuals and other companies dominate the blockholdings. In Germany, individuals and families hold 32% of blocks, other companies 28%, trusts and holding companies 21%, financial institutions 17% and government 3%. In Austria, individuals and families hold 45% of blocks, companies 36%, financial institutions 11% and government 9%. For the raw counts, see table 2.
Solvay S.A. has three known shareholder groups: the Boel, Solvay and Janssen families (29%), Solvac S.A. (25%) and the company’s employees (1%). Solvac S.A. is a holding company that has been formed to control Solvay S.A. Although Solvac is listed, it has issued registered shares that can only be held by private investors. Solvac’s stock is illiquid and on 31 December 1998 it was estimated to trade, compared to the company’s intrinsic value, at a discount of 28.6% (Banque Degroof 1999). Solvac introduces a small degree of pyramiding into this control structure. Through Solvac S.A., the families exert majority control. To protect the company further, for example against family disputes, Solvay has entered an anti-takeover pact with “friends” (Sofina S.A., Deutsche Bank AG, and Générale de Banque S.A.). The Boel, Solvay and Janssen families control Sofina S.A. (Banque Degroof 1999).
Unilever Plc/NV has a complicated control structure. NV has locked control into Plc, and vice versa. In addition, NV leverages voting power through a trust company and uses preference shares to fend off unsolicited bids for control. Cross-lock in: NV has the sole right to nominate directors for election at Plc, and vice-versa. This is achieved through a cross-holding structure involving two holding companies, N.V. Elma and United Holdings Limited that hold 50% of special shares and deferred shares in NV and Plc. Since N.V. Elma is a subsidiary of NV and United Holdings Ltd of Plc, Elma cannot vote its special shares of NV and United Holdings cannot vote its deferred shares in Plc (Unilever Form 20-F 1998, page 33). Hence, the other shareholders of NV and Plc can refuse to elect the directors Plc and NV nominate respectively, but they cannot nominate other directors for election. In addition, "each of Unilever's ten directors is a full-time executive and is a director of both NV and Plc" (Unilever Annual Review 1998, English Version in Guilders).

Voting power leverage: NV has issued 3 classes of shares; ordinary shares (*), special shares (‡) and three types of cumulative preference shares (7%, 6%, 4%; †), representing 0.3%, 70.5% and 29.2% of par-value respectively. Nedam trust holds 66.6% of the ordinary shares and 3.8% of the cumulative preference shares. For its 66.6% stake in the ordinary shares it has issued non-voting certificates that are traded on the stock market. Nedamtrust itself is owned and controlled by ANT. Veto power of preference shareholders: ING and Aegon hold approx. 91% of the cumulative preference shares. In the unlikely that a bidder would acquire the ordinary shares of Plc or NV, the bidder would be unable to break up the “equalisation and other agreements” that bind Plc and NV without the consent of 2/3 of the preference shareholders.
Power increases proportionally with ownership under one-share-one-vote, in the absence of pre- and post-bid anti-takeover devices and under “neutral” regulation. Rules and devices protecting dominant investors push the line linking ownership to control upwards to the left. Control therefore declines less than proportionately initially with reduction in ownership. On the other hand, strong minority protection pushes the ownership-control line down to the right. Control then declines more than proportionately with ownership.
TABLE 1

SIZE OF ULTIMATE VOTING BLOCKS BY RANK

The table reports the size of the largest, 2\textsuperscript{nd} largest and 3\textsuperscript{rd} largest median voting block for non-financial companies listed on an official market in the countries studied in this book. For France only the main stock price index (CAC40 is covered).

<table>
<thead>
<tr>
<th>Country</th>
<th>No. Companies</th>
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Notes: * - there is no 5%+ voting block.
### TABLE 2. VOTING BLOCKS BY BLOCKHOLDER TYPE

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</table>

Endnotes

1 University of Oxford, Park End Street, Oxford OX1 1HP, UK, email: colin.mayer@sbs.ox.ac.uk.

2 Coffee (1991) disagreed with the over-regulation view. He argued that regulation in the United States imposed fewer restrictions on blockholdings than Roe (1990) had suggested. In his view, blockholdings were influenced by the way in which regulation affected the “exit” and “voice” options of institutional investors. In the United States, block holdings above 20% are unattractive because the SEC considers that they confer control and selling these blocks can be difficult. Also, “controlling blockholders” face the risk of liability suits from other investors.

3 Most recently, Roe (2000) has questioned this view. He argues that politics rules out certain ownership and control constellations. The Berle Means corporation can only emerge under particular political preconditions. Roe and Bebchuk (2000), argue that ownership and control patterns are often locked in and change very little over time because of path dependence.