The Control of Corporate Europe

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based on research by the
European Corporate Governance Network
published in a book with the same title by
Oxford University Press

Project Contributors

Project Sponsors

- European Commission (former DGIII)
- Fondazione Eni Enrico Mattei (FEEM)
- Politecnico di Milano

Main Results

1. Block holders dominate corporate governance in continental Europe;
2. Voting power can be leveraged over cash flow rights;
3. The U.K. is an exception: There are hardly any dominant block holders and no anti-takeover devices, but often the potential for influential shareholder coalitions;
4. In the absence of block holders control is typically exercised by boards that are well protected by anti-takeover devices; this is true in continental Europe and the United States.
Blockholders Dominate Corporate Governance in Continental Europe

Percentage of listed companies not under majority control

Source: country chapters in Barca and Becht (2001)
Percentage of listed companies with no blocking minority of at least 25%

Source: country chapters in Barca and Becht (2001)

Voting power can be leveraged over cash flow rights
Porsche AG

Porsche/Piech Family Voting Pool

100% 10%*

Porsche AG Voting Stock Porsche AG Non-Voting

50:50 capital

Source: Hoppenstedt Guide 1999; * estimate

ING Groep N.V.

Certificate Holders

100% capital 0% votes

ING Administratie Kantoor

100% capital 100% votes

ING

Source: Form 20-F
The U.K. is Different

BP plc

(Global FT500 #15)

- no 5%+ block holders
  - 365,905 registered shareholders
  - 168,899 ADR holders
  - at least one ADR with 536,000 holders
- no anti-takeover devices
- compliance with the Combined Code
- S&P corporate governance score: 9.6/10

Source: Annual Report 2000, S&P
Size of Voting Blocks in the UK (Means)

Source: Goergen and Renneboog in Barca and Becht (2001)

Widely held companies in the U.S. and continental Europe are well protected against (hostile) takeovers
Texaco Inc.
(Global FT500 #162)

- no 5%+ block holder
- 1/3 staggered board with 3 year terms
- blank check preferred stock
- poison pill shareholder rights plan
  - pill approved by shareholders
  - vote (1998) : 65.1% for, 34.1% against
- 11/12 directors independent

Source : Proxy Statement for meeting April 26, 2000; IRRC 2000

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Total Fina Elf S.A.
(Global FT500 #108)

- double voting rights after two years
- voting right restriction of 10% (20%)
- restriction lifted in a full tender offer
- formal approval of French state for M&A required

Frère-Desmarais Group

4.1 % capital 6.9 % votes

Source : Form 20-F for year ending 31 December 2000
BBVA S.A.

- Chair, Vice-chair
- Standing Committee
  - prevent change
  - 3 year waiting period
- BBVA Board
  - 2 year waiting period
- BBVA S.A.
  - 10% voting right ceiling

potential raider

Source: Company Statutes

Royal Dutch/Shell (Global FT500 #10)

- Priority Share Foundation
  - 1440 shares with 6 votes
  - meeting of priority shareholders
- Ten Royal Dutch Board Members
  - 10 x 6 shares and votes
  - binding nomination; assigns priority shares; block change
- general meeting
  - voting cap. 48,000
  - issued: 2,144,320,000
  - 0.05% of issued capital
- Royal Dutch Petroleum Company NV
  - 60/40
- The “Shell” Transport and Trading Company p.l.c.

dispersed holdings
  - (one equal 3.2%)
  - compliance with Combined Code

Source: Form 20-F, 1998 data
Unilever
(from Form 20-F, 1998 data)

£ 40,758,696 ordinary shares
£ 100,000 deferred shares ±

United Holdings has sole right to nominate directors for election at NV

Fl 2,400,000 special shares ±

103,137 holdings
75.9% < 1.5%
two equal 5%

Some Questions Raised by the Results

• Is it possible to have shareholder oversight without block holders?
• Do block holders exert too much control?
• Should we impose “one-share-one-vote”?
• Should we prevent majority shareholders from appointing the majority of board members, like in the U.K.?
• Are anti-takeover defences harmful or, when used liked in the U.S., beneficial?
Do Large Shareholder Make for Good Corporate Governance?