

# Corporate Ownership and Control: The European Experience

Presented on behalf of the

**European Corporate Governance Network**

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# Question

- How are European corporations controlled?
  - Who controls Corporate Europe?
- ⇒ In this presentation we focus on the first question.
- **Team effort** to achieve
    - detailed analysis at country level
    - to overcome data access problems

# What is Measured?

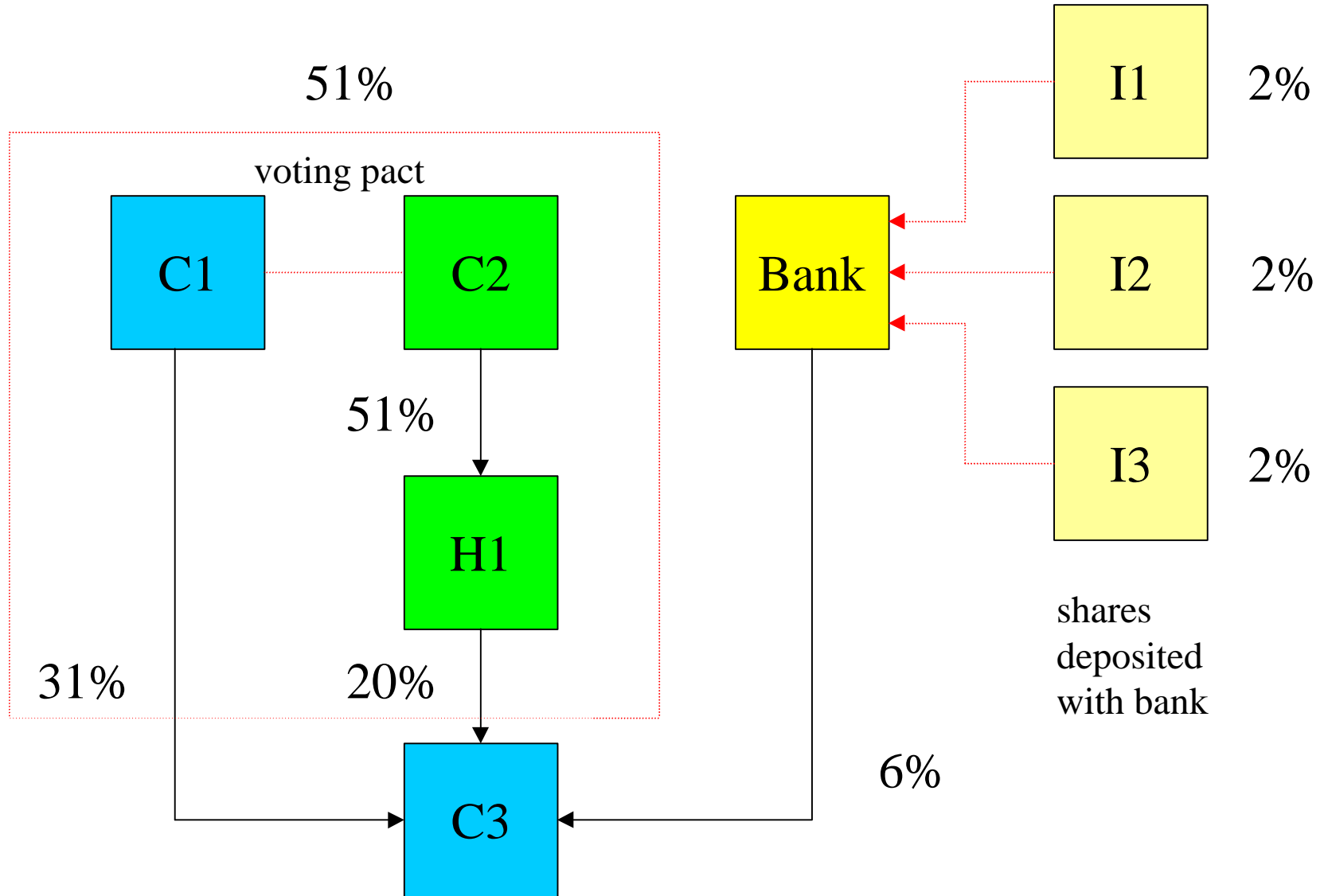
## La Porta *et. al.*

- Proportion in 20 largest and smallest companies
  - one **block** > 10% (20%)
  - complex and cross holdings > 10%
  - type of control group
- Av. cash-flow to control rights (*Moody's*)

## ECGN

- Distribution of **voting blocks** for companies
  - largest, 2nd, 3rd ...
  - largest across all listed companies (also cumulative)
  - sum of x-largest
- For blockholders
- Some countries : cash-flow rights to control

# Ultimate Voting Blocks



# 88/627/EEC (13D) Disclosure

- Applies to companies registered in the Member State listed on an official market in the EU (in the US : SEC registered)
- Actual and potential total voting power triggers notification requirement
- Notification thresholds (up or down) : 10%, 20%, 1/3 (or 25%), 50% and 2/3 (or 75%)
- Ownership is generally not notified

# Size of Ultimate Voting Blocks by Rank

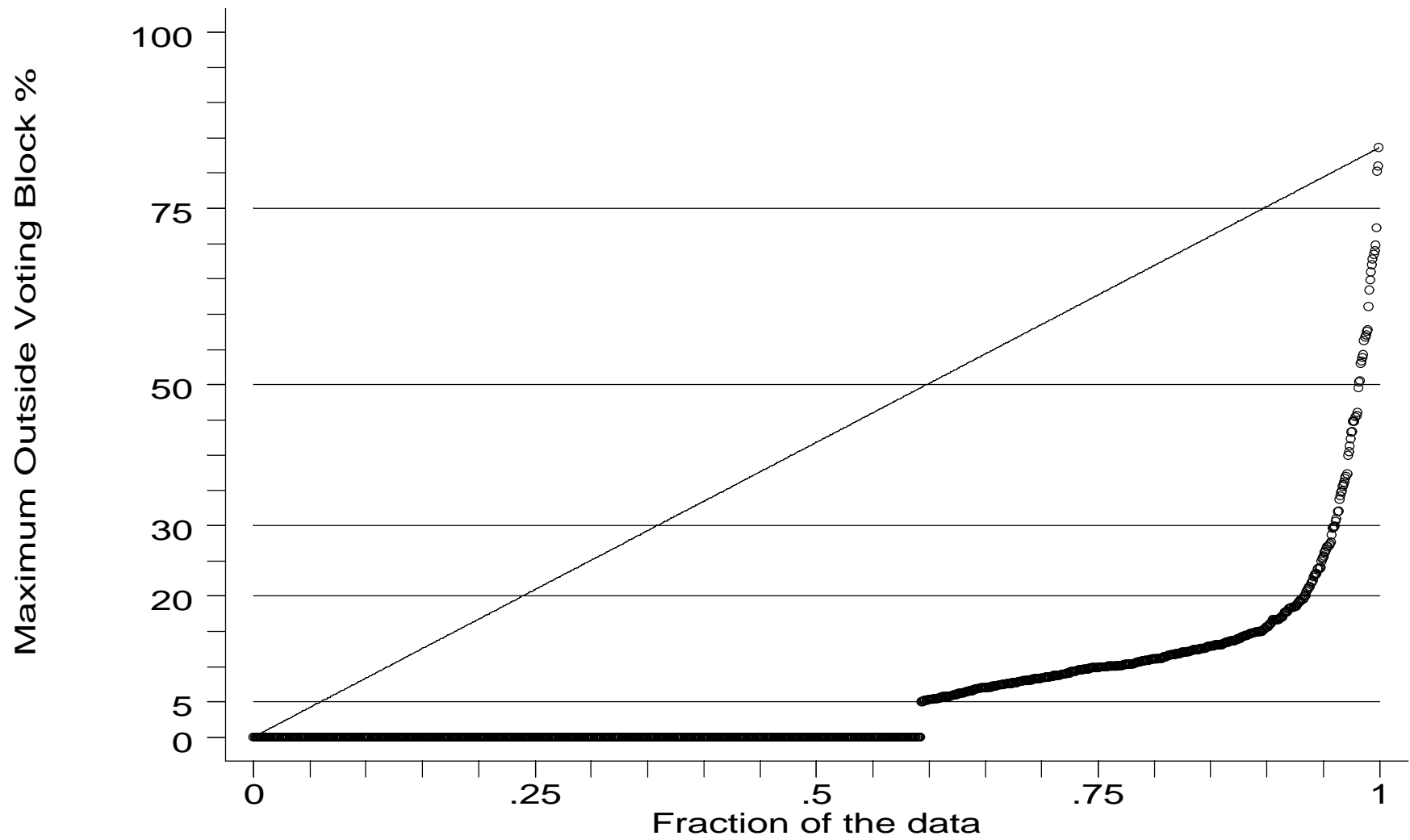
Country	No. Companies	Median Largest	Median 2 <sup>nd</sup>	Median 3rd
Austria	50	52.0	2.5	0
Belgium	121	50.6	0	0
	BEL20	45.1	0	0
Germany	374	52.1	0	0
	DAX30	11.0	0	0
Spain	193	34.2	8.9	5.2
France	CAC40	20.0	5.9	3.4
Italy	214	51.0	7.6	3.0
The Netherlands	137	43.5		
United Kingdom	250	9.9	6.6	5.2
United States				
	NYSE	1309	0	0
	NASDAQ	2831	0	0

Source : ECGN Country Team Reports

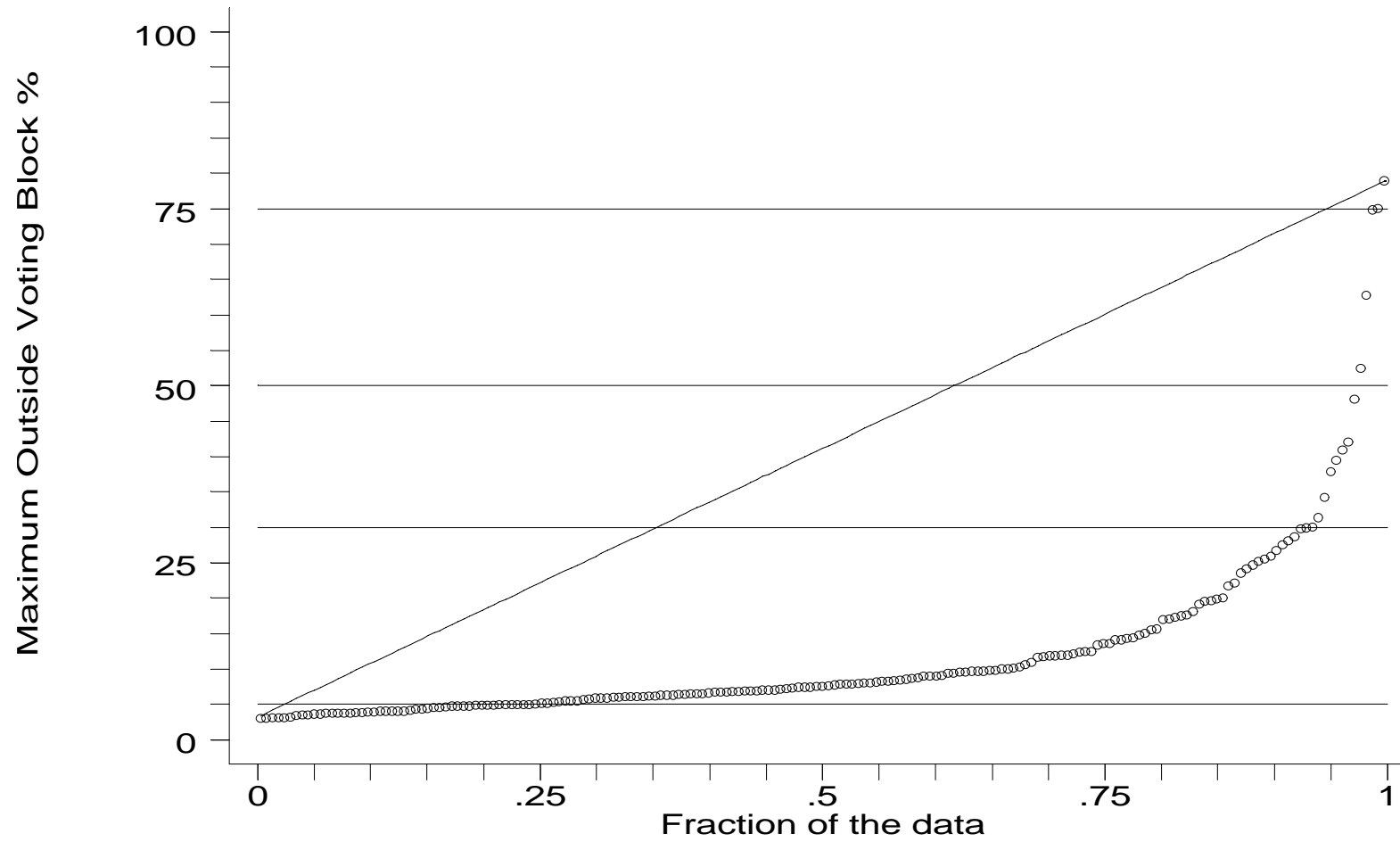
**Table 2. Voting power concentration.** Percentage of companies for which largest voting power stake lies in (in and below) various ranges.

Range [x,y)	Austria		Germany		USA (NYSE)		USA (NASDAQ)	
	%	Cum %	%	Cum %	%	Cum %	%	Cum %
0-5%	0	0	1.1	1.1	52.8	52.8	54.4	54.4
5-10%	0	0	1.9	3.0	21.1	73.9	17.4	71.9
10-25%	14	14	14.5	17.5	20.9	94.8	20.6	92.4
25-50%	18	32	18.3	35.8	3.5	98.3	5.5	98.0
50-75%	54	86	25.5	61.3	1.5	99.8	1.5	99.4
75-90%	8	94	17.5	78.8	0.2	100	0.5	99.9
90-95%	6	100	5.7	84.4	0	100	0.0	99.9
95-100%	0	100	15.6	100	0	100	0.1	100

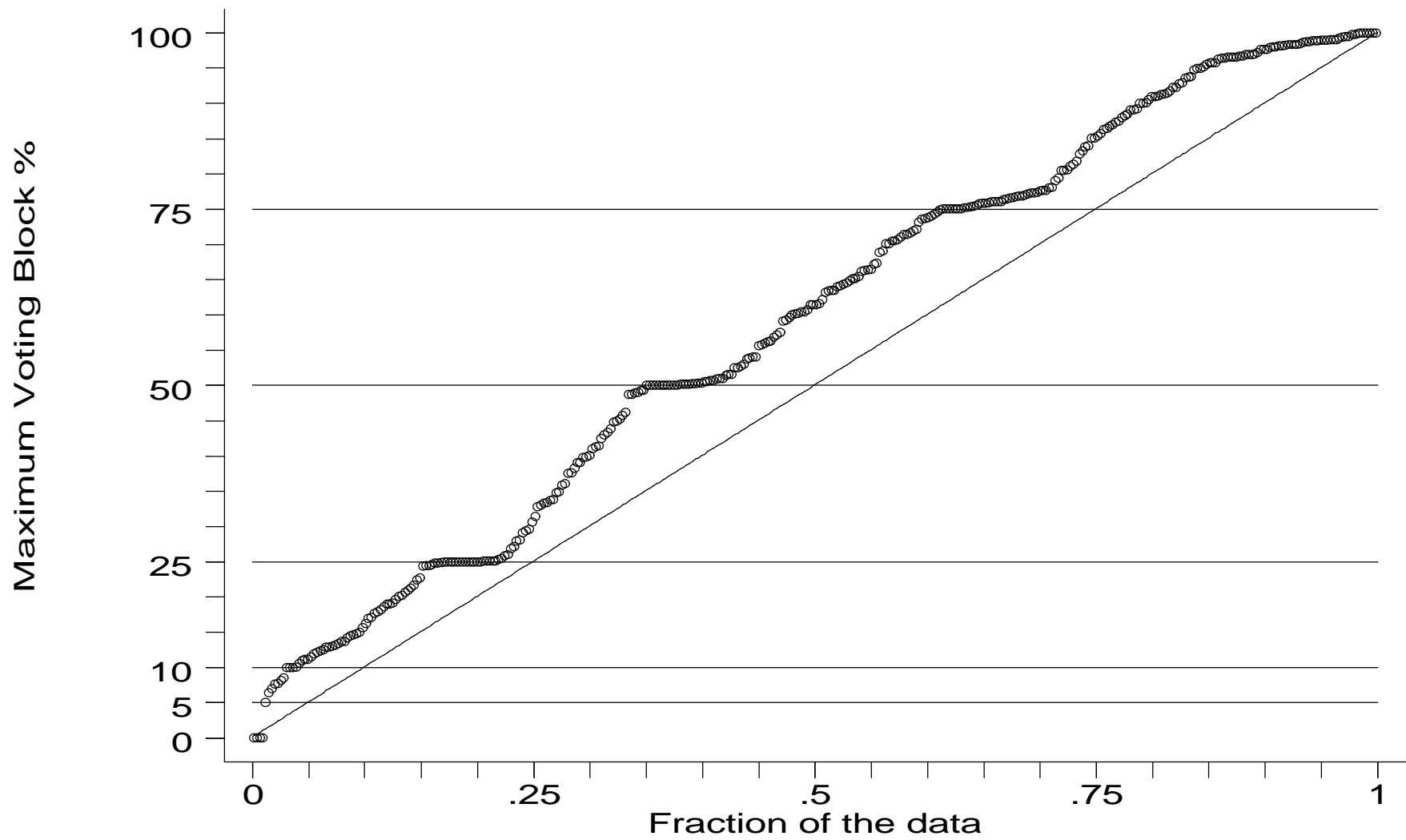
Source: ECGN country team reports.



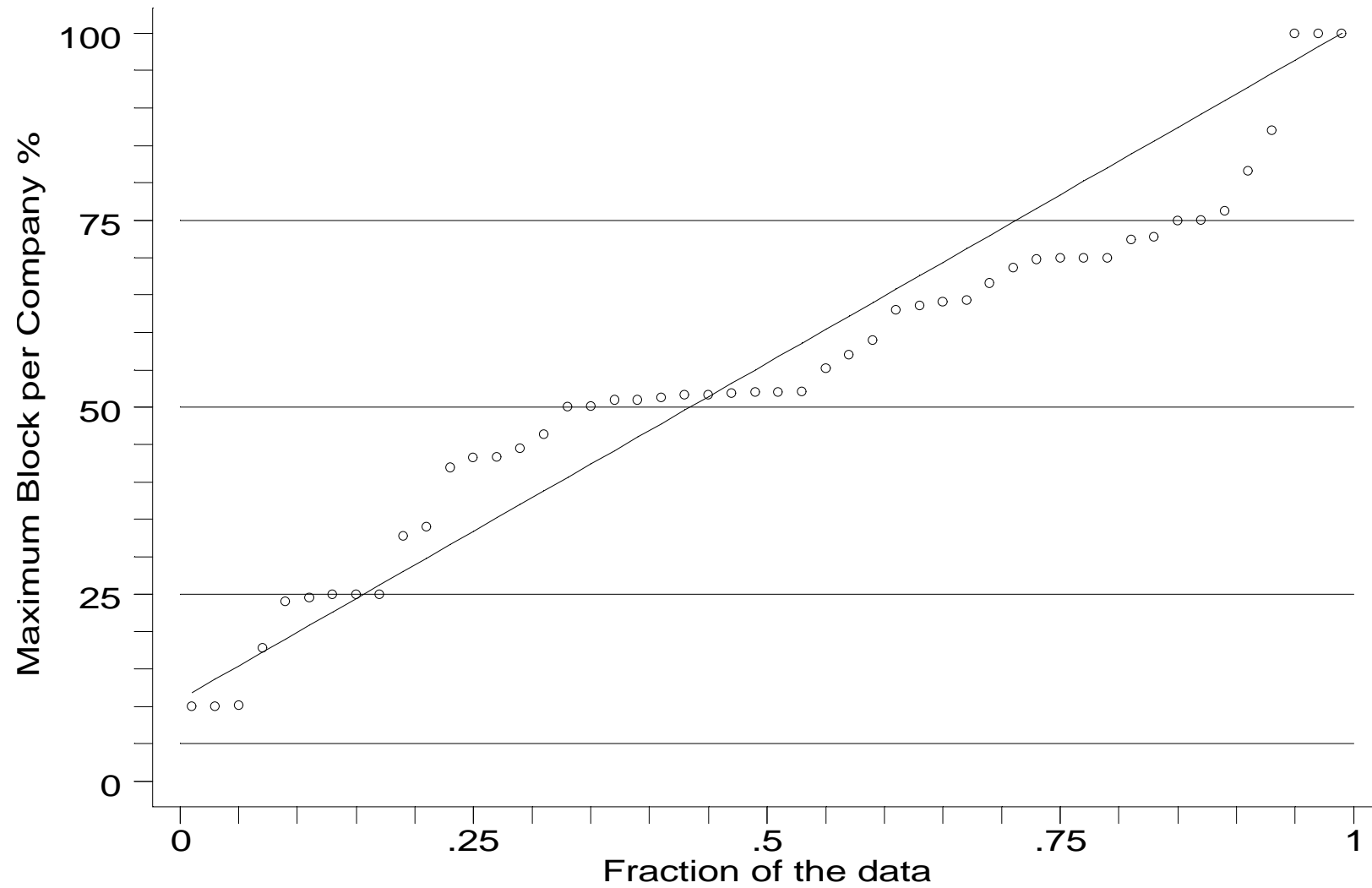
Percentile Plot for **NYSE** Firms. Source : Becht



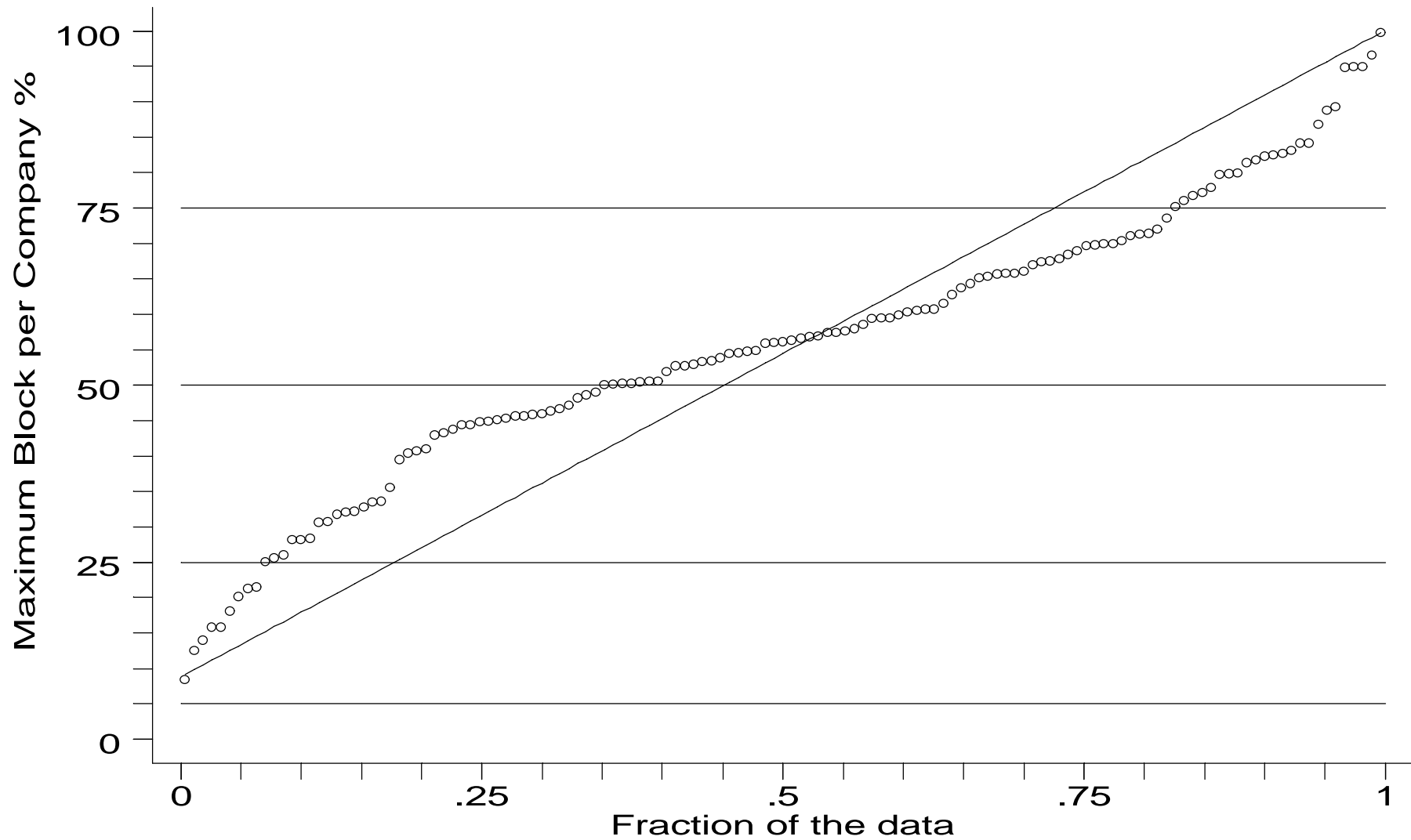
Percentile Plot for **UK** firms. Source : Goergen and Renneboog



Percentile Plot for **Germany**. Source : Becht and Boehmer



Percentile Plot for **Austria**. Source : Gugler, Kalss, Stomper and Zechner



Percentile Plot for **Belgium**. Source : Becht, Chapelle and Renneboog

# Separation Instruments

- Positive leverage
  - Non-voting stock
  - Dual Class share with multiple voting rights
  - Voting trusts
  - Pyramids (also works with one-share-one-vote)
  - Proxy voting (“German style” or “stuffing the ballot box” US-UK style)
  - x-shares-one-hand
- “Negative” leverage
  - Voting caps (and transfer restrictions)

ING Groep N.V.  
nine classes of registered shares: ordinary, pref. A, pref. B (5 series), cum. pref.  
share transfers only to natural persons holding less than 1% of ordinary or pref. (before or after)

ING Groep Foundation  
authorised capital (poison pill)  
potent. V&CF : 50% of pref. shares

ING Administr. Ktr.  
CF (direct) : 100%, CF (ultimate) : 0%  
Votes : 100%

small shareholders  
hold CF certif. with no vote

Aegon NV  
CF (certif.) : 6.25%  
Votes : 0%

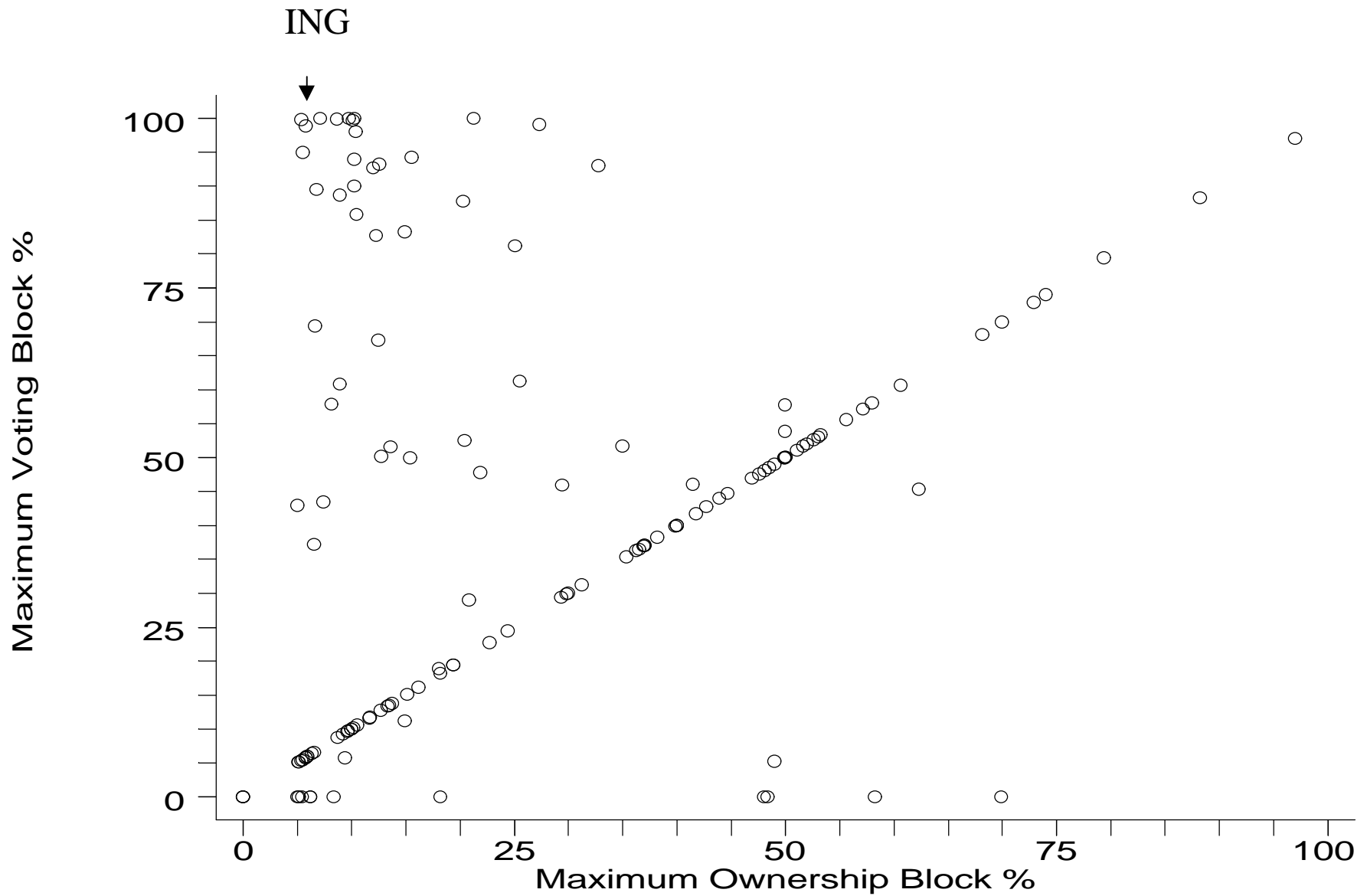
Amev/VSB 1990 NV  
CF (certif.) : 6.15%  
Votes : 0%

PGGM Pension Fund  
CF (certif.): 5.5%  
Votes : 0%

Preferent Fonds NV  
CF (certif.) : 5.165%  
Votes : 0%

# ING Facts

- 56th largest company in the World 1998
- Capital base growth > 100%, 1993-97
- Ownership concentration (C<sub>5</sub>) : 23.4%
- One certificate no-vote, 100% voting power with trust office
- Supervisory board cannot be removed
- Certificates held by U.S., U.K. & Can, 34%
- NL: weak minority protection (2/6) and no “over-regulation” (e.g. no mandatory bid)



**Netherlands.** Source : De Jong, Kabir, Marra, and Röell (1998)

# Explaining Blockholding Patterns

- Legal system (La Porta *et. al.*)
  - German and Austrian evidence supports this
  - Evidence does not confirm that blocks are used for “protection”
- Regulation
  - Political choice (Roe)
  - Responding to needs (e.g. Easterbrook)
- Liquidity-control tradeoffs (Bolton-v. Thadden, Becht 1998)