

The costs and benefits of different forms of ownership

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What is the dominant ownership model? Family control versus dispersed ownership?

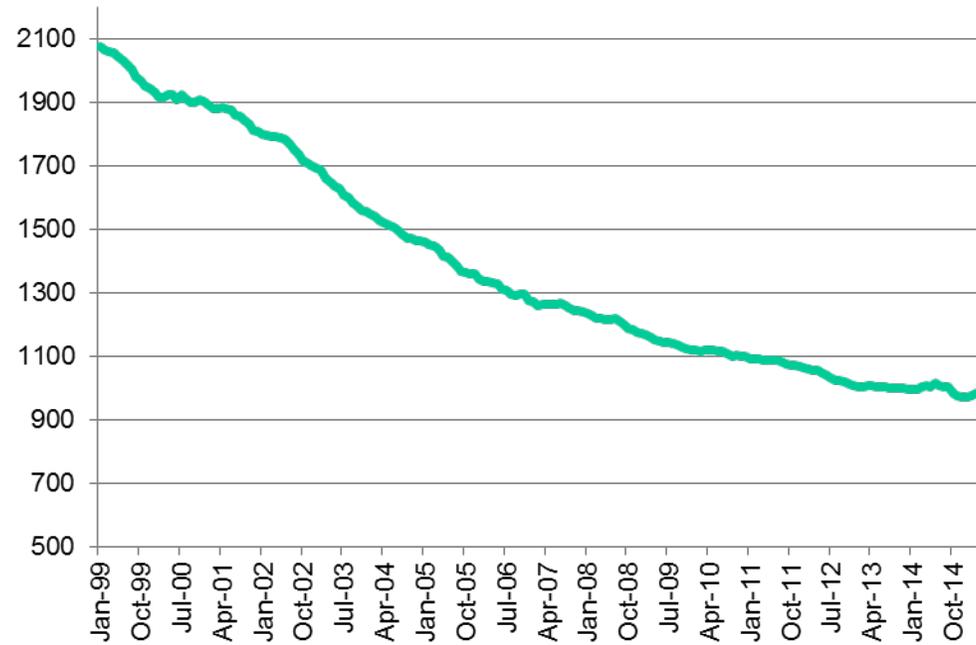
- Which would you prefer? Dispersed ownership markets of the UK or the family dominated markets of Italy or of Sweden? How can you judge?
- Paul Myners (former Minister for the City): the UK Plc is characterised by 'ownerless corporations'.
- Why? Small fragmented shareholders have little incentive to monitor & intervene in underperforming companies because of free riding and agency problems.

Fragmented markets are expensive

- UK: low private benefits curbed by regulation and independent boards. Enforcement against fraud, tunnelling etc.
- Agency costs are reduced by better boards of directors e.g. independent directors, separation of CEO and chairman.
 - Prejudice against 'kinship' & family succession
- Nevertheless high costs remain: large premiums paid by private equity for listed companies, resulting in a sharp decline in the number of domestic listings, costs of market for corporate control & uncertain gains
- What can cure the high agency costs of fragmented ownership? Shareholder activism, more active institutional engagement. But one is expensive & the other under-invests

The decline of UK listed companies

UK Main Market Listed



What about Italy?

- Italy historically high private benefits, reflected in large voting premiums
- Why? Wealth transfers from minority shareholders to the blockholders. Boards less responsive to minorities
- Can law and regulation curb the costs of private benefits of control of block holder capital markets? They do in Germany and Scandinavia
- If these costs can be curbed then they may be less than the agency costs of dispersed ownership?
- We see the rise of shareholder activism- Italy is 2nd highest in the world as a % of listed markets: ENI, Telecom Italia, Monte dei Paschi, MedioBanca, Parmalat, & Italcementi

Voting Premia (Nenova, 2003) and private benefits

Sweden	1%
Denmark	1%
Finland	0%
Italy	29%

In the last 5 years 22 IPOs and about half have dual class shares. 54 out of 240 listed on the MTA have voting shares.

Significant regulatory changes have reduced private benefits.

Ownership in top 1000 private & public companies (2006): what has changed?

	2006			
Ownership Type	Germany	France	UK	Italy
Multiple Blocks	2.0	1.0	0.4	1.2
Family	33.3	38.2	20.4	46.8
State	9.7	8.2	3.8	13.3
Widely held or widely held Parent	49.5	49.2	70.0	38.0
No. of Companies	856	975	996	960

Definition of major shareholder: stake larger than 25% of equity.

Source: Franks, Mayer, Volpin and Wagner (2007).

The life cycle view of family ownership

- Companies grow, become listed, acquire other companies with stock, family ownership is diluted and eventually sell out.
- UK follows such a cycle but not France, Germany and Italy.
- Why? The answer can be found in differences in their capital markets.

Factors influencing the survival of family firms?

- In the UK, 12% of firms are controlled by domestic families, 40-50% in Continental Europe.
- Pattern is similar among both listed and private firms.
- High turnover of family control in the UK, high stability of control in Continental Europe.
- In the UK, need for external financing and the market for corporate control reduce survival probability of family firms in the UK, but much less so in Continental Europe.
- Industries with a need for large external finance much less likely to be family controlled in the UK whereas not so in France Germany and Italy.

UK is archetypal outside system and Italy insider system

The evolution from family firm to public corporation runs smoother when:

Private benefits of control are smaller;

Opportunities for risk diversification are greater;

Raising equity is less expensive;

Market for corporate control is more active & efficient;

...

In short, in “outsider” rather than “insider” systems.

UK is archetypal outsider system and Italy is insider system

Why do family firms survive longer in Italy than in the UK?

Survival of family firms: Family firms will survive less as family-controlled firms in outsider compared with insider systems.

Age as a determinant of family control: family firms will be younger in outsider systems than in insider systems.

Need for external financing: Family ownership will be concentrated in industries with less need for external capital in UK than in France, Germany and the UK.

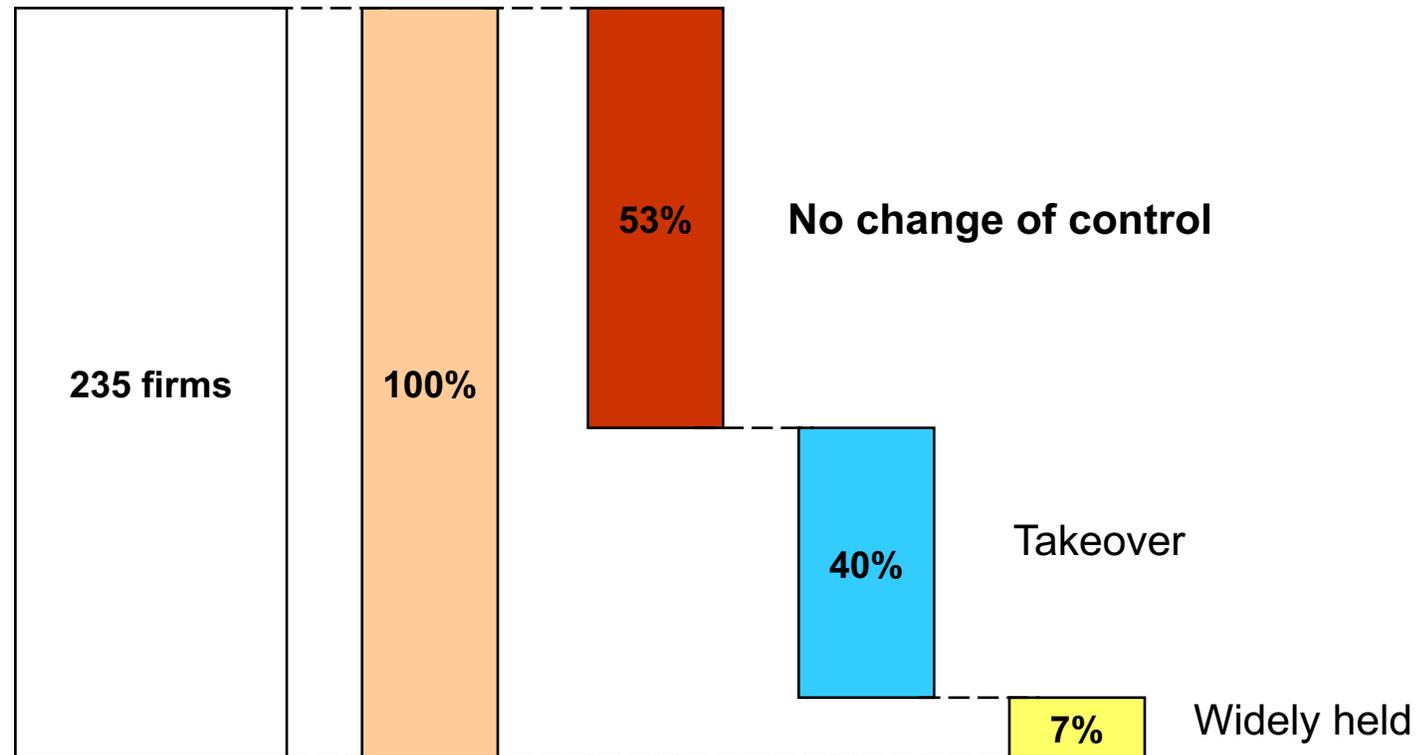
Differences in profitability: Family controlled firms likely to be more profitable in insider systems but less so in outsider systems. Family firms favoured in countries like Italy, France & Germany. Much less so in the UK.

Of the top 1000 firms how many are listed?

Frequency of listed firms among largest 1,000				
	Germany	France	U.K.	Italy
Listed firms, % all firms	14.5	13.6	27.8	8.4

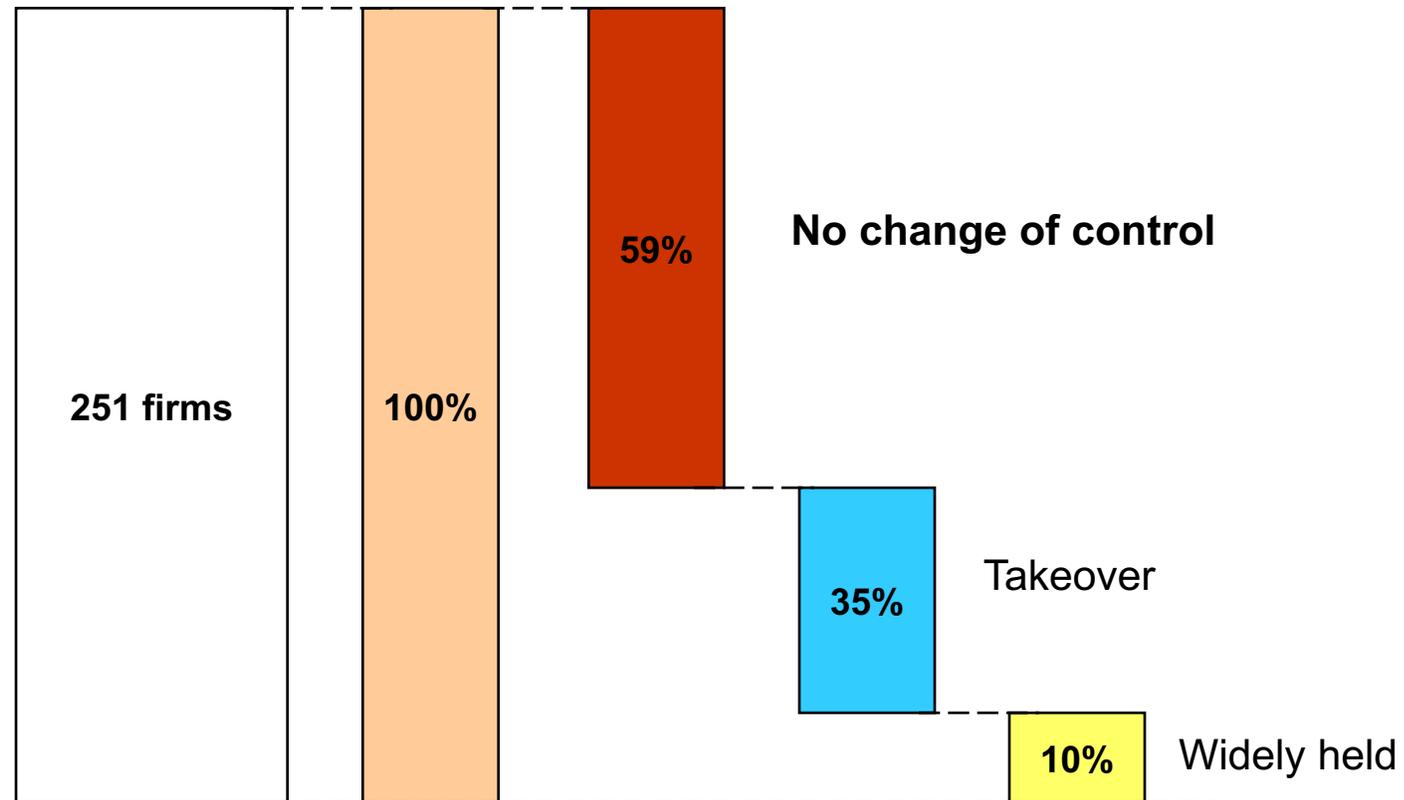
Evolution of Listed Family Firms: over a 10 years period

Germany

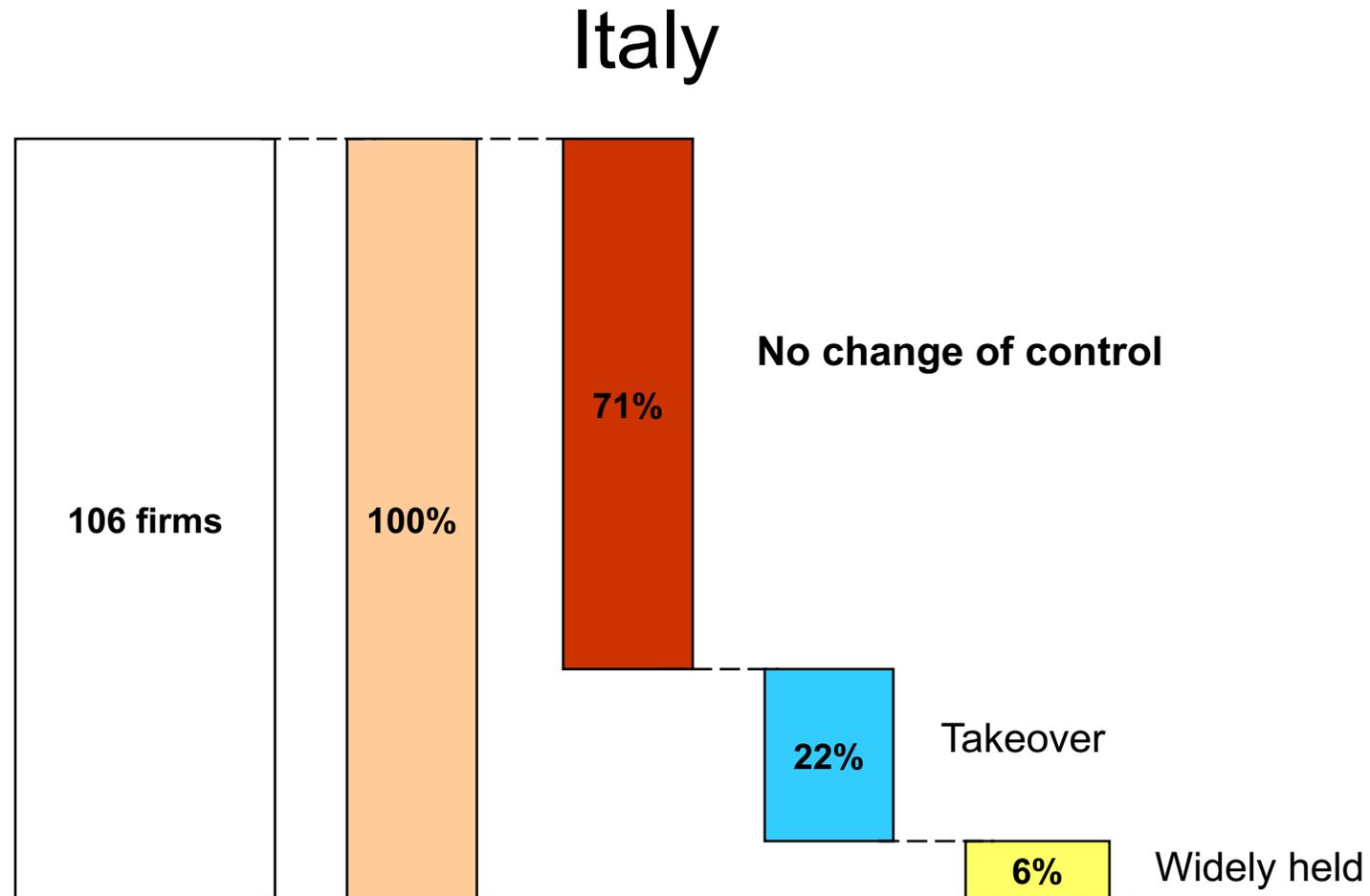


Evolution of Listed Family Firms: over a 10 years period

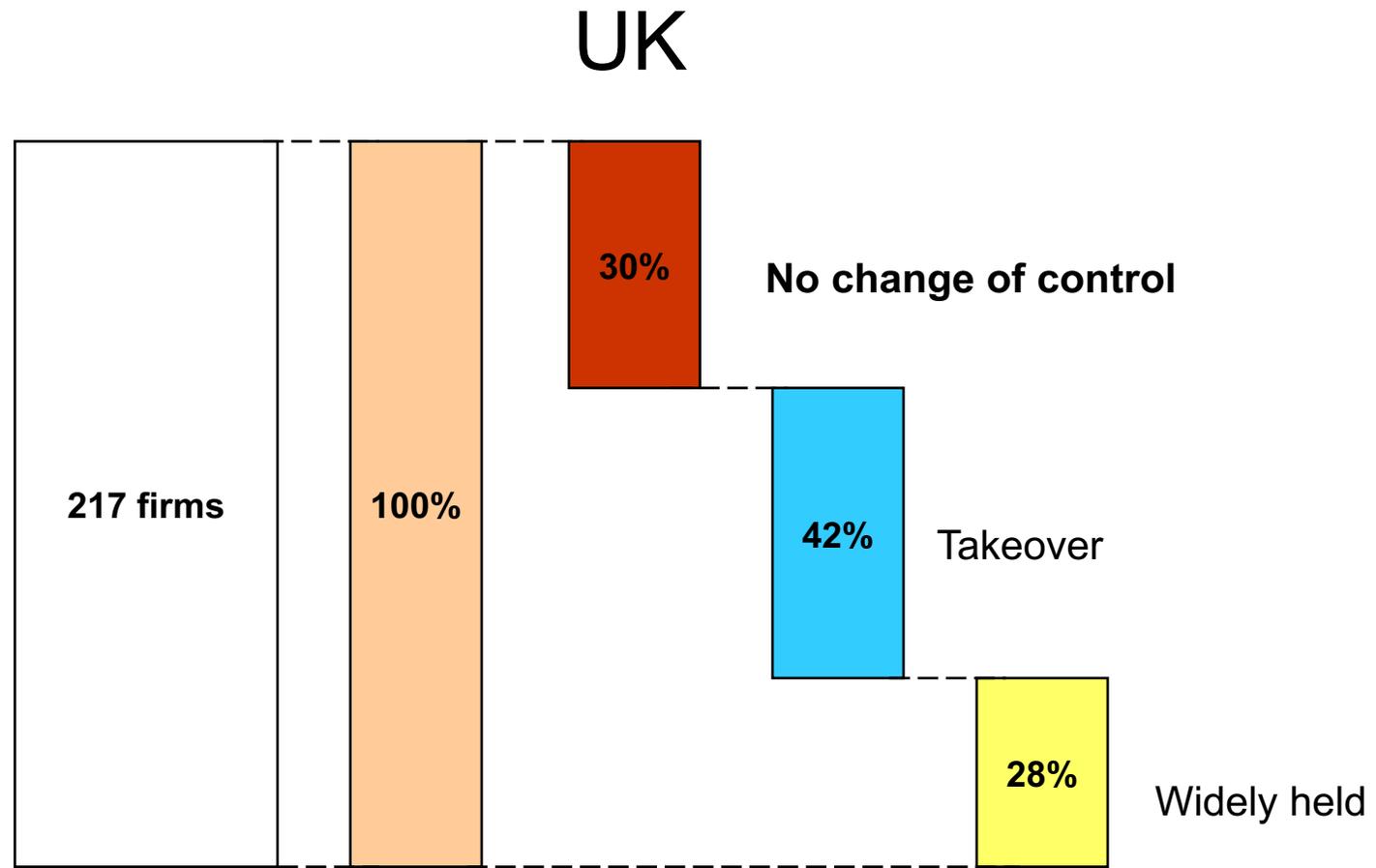
France



Evolution of Listed Family Firms: over a 10 years period



Evolution of Listed Family Firms 4



Should we encourage family ownership?

- How should family dominated capital markets evolve in countries like Italy? What can or should governments do?
- Should there be a bias against companies with large stockholders, where [family] kinship and succession is valued.
- Should we adopt the level playing field approach of the UK with its emphasis on protecting minority shareholders?
- Can we do much about this? Are we stuck with the marriage of our capital markets and landscape of ownership?
- In a horse race, which ownership model will win?