



Industrial Structures and Corporate Governance

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Development of Corporate Governance

The United States

- > Traditionally seen to represent a model of dispersed ownership
 - But consider recent tech-firms (google, facebook, etc.)
- > Corporate system developed in era of infra-investments
 - Funding requirements were beyond the capability of single shareholders
- > Banking was restricted
 - Political issues (Roe)
 - State banking licenses
 - Glass-Steagall

US CG Phenomena

- > CEO and board position strong
 - Takeover defences emerged in 1980's
- > Shareholder influence relatively low
 - Shareholder cooperation discouraged
- > Litigation risk real
 - Precedents formed by Delaware law
 - Regulatory capture relevant

Germany

- > Industrial development post WWI and WWII
- > Labour had strong influence in these efforts
- > Industrial focus was on advanced industries and fine mechanics
- > Labour influence reflected in codetermination efforts

France

- > In France, corporations have traditionally been financed through operational cash flow and by their shareholders.
 - Traditionally high level of family ownership and control in even large listed corporations
 - See Antoin E. Murphy, Corporate Ownership in France - The Importance of History, ECGI, 2004. Murphy mentioned Michelin, L'Oreal and Peugeot as examples of large corporations with concentrated ownership by families.
- > Long history of government involvement in the economy.
 - Several “national champions” focusing on industries requiring significant research and investment costs.
- > Significant privatization programme
 - Starting in the mid 1980's leading to the government giving up control of over 1000 companies within a decade.

The United Kingdom

- > Dispersed Ownership model usual
 - Companies were driven to consolidation already in the early 20th century leading to a decrease in family ownership.
 - Liquid capital market and equity financing was usual in connection with corporate acquisitions.
 - Studies have found ownership in listed companies to have remained dispersed largely throughout the 20th century.
- > The United Kingdom underwent a significant privatization program in the 1980's
 - Government retaining no shareholdings in the largest 100 companies in the country.
See Franks, Mayer, Rossi (2006)

Sweden

- > Concentrated ownership
 - Ownership in the largest listed companies in Sweden remains concentrated. Typically controlling shareholders are families who have held control over a longer period.
 - Control enhancing structures, mainly dual-class shares and pyramid structures, are in use in a large portion of these companies.
- > The industrial development starting with industrialization in the late 19th century, together with the extensive role of bank financing, supported the development of concentrated ownership.
- > Influence of the dominance of social democratic policies during the main part of the 20th century.
 - It has been argued that in Sweden the social democratic agenda in the first part of the 20th century supported the development of corporatist style large companies.

Finland

- > Concentrated Ownership
 - Government has significant role in corporate ownership
 - Family ownership also important (lesser role than in Sweden)
- > Traditionally bank-focused financial system
 - Bank based industrial groupings
- > Foreign ownership
 - Ownership structures changed with 1) deregulation late 1980's and 2) bank crisis in early 1990's
 - Foreign ownership and governance models introduced



Institutional Environment

Factors Affecting Stakeholder Dynamics

- > Industrial Structures
 - Raw material processing / Machinery
 - Precision mechanics / International trade
 - Type of labour requirements
 - Financing requirements
- > Structure of the Economy and Finance
 - Open / closed economy
 - Export reliant economy
 - Sources of financing (cash flow, banks, equity)
- > Political Environment
 - Stability
 - Quality of institutions
 - The political background of US ownership structures (Mark Roe)
 - Social democratic systems → CO (Mark Roe)
 - Political coalitions (Gourevitch & Shinn)
- > Abrupt changes in the economy
 - Economic structures
 - Financial Crisis
 - Effect on bargaining position
 - Effect on vested interests
 - Change in focus

Factors Affecting Stakeholder Dynamics: Mechanisms

- > Pension System
 - Funded vs. pay-as-you-go
 - Labour interest vs. minority interest
 - > Tax System
 - Treatment of debt vs. equity financing?
 - Treatment of dividends
 - Favouring minority / majority shareholders?
 - > Legal System
 - Ability to Control
- CO system: "Large block necessary / gives satisfactory ROI" (Roe)
 - DO system: "Large block does not give additional control" (Cools)
 - Monitoring Private Benefits of Control
 - CO: Related party transactions
 - DO: Management monitoring systems

Who owns / controls?

- > Life cycle
 - Founder-entrepreneur
 - Growth phase
 - Stock Exchange traded company
- > Types of Owners
 - Entrepreneurs
 - Families
 - Financial institutions
 - State
 - (Passive) investors
- > Types of Ownership/Control Structures
 - > 1) Dispersed Ownership
 - > Exit enhancing:
 - Disclosure requirements
 - Takeover mechanisms
 - > 2) Concentrated Ownership
 - > Control Enhancing:
 - Share classes
 - Pyramids
 - Cross-shareholdings
 - Foundations (Parked ownership)
 - Regulatory protections

Political coalitions

Political Coalitions and Governance Outcomes*			
<i>Coalitional Lineup</i>	<i>Winner</i>	<i>Political Coalition Label</i>	<i>Predicted Outcome</i>
<i>“Class Conflict”</i> Owners+managers vs. workers Owners+managers vs. workers	Owners+managers workers	“Investor” “Labor”	Diffusion of shareholdings Blockholding
<i>“Sectoral”</i> Owners vs. managers+workers Owners vs. managers+workers	Managers+workers Owners	“Corporatist Compromise” “Oligarchy”	Blockholding Blockholding
<i>“Property and Voice”</i> Owners+workers vs. managers Owners+workers vs. managers	Owners+workers Managers	“Transparency” “Managerism”	Diffusion Diffusion
*Gourevitch & Shinn (2005), p.23			

Development of Regulation

- > Corporate governance structures depend on the environment
 - Structures are path dependent
- > Regulation responds to the demands of the environment
 - Different regulatory solutions in different environments
 - Regulation is also subject to path dependence

Development of Regulation - Mechanisms

- > Concentrated Ownership
 - Strong voice rights
 - Weak management
- > Control Enhancing:
 - Share classes
 - Pyramids
 - Cross-shareholdings
 - Foundations (Parked ownership)
 - Regulatory protections
- > Dispersed Ownership
 - Disclosure regimes
 - Cash flow / Exit rights
 - Takeover mechanisms
 - Weak voice rights
 - Strong management control



Functional Approach

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A Functional Perspective to CG

“[F]ive main ways to mitigate shareholders’ collective action problems:

- 1) Election of a board of directors representing shareholders’ interests, to which the CEO is accountable.*
- 2) When the need arises, a takeover or proxy fight launched by a corporate raider who temporarily concentrates voting power (and/or ownership) in his hands to resolve a crisis, reach an important decision or remove an inefficient manager.*
- 3) Active and continuous monitoring by a large blockholder, who could be a wealthy investor or a financial intermediary, such as a bank, a holding company or a pension fund.*
- 4) Alignment of managerial interests with investors through executive compensation contracts.*
- 5) Clearly defined fiduciary duties for CEOs and the threat of class-action suits that either block corporate decisions that go against investors’ interests, or seek compensation for past actions that have harmed their interests.”*

Source: CORPORATE GOVERNANCE AND CONTROL; Marco Becht, Patrick Bolton & Alisa Röell (Working Paper 9371; <http://www.nber.org/papers/w9371>)



Observations

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- > CG must be analyzed in the broader institutional context
 - What are the issues in the relevant environment
 - Consider broader set of factors
 - Recognize path dependence and complementary institutions
 - Comparative Institutional Analysis (Masahiko Aoki, Ruth Aguilera & Gregory Jackson, Elinor Ostrom)

- > Comparative CG
 - Remains relevant and important
 - Indices can and need to be developed

Thank you for your interest

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