

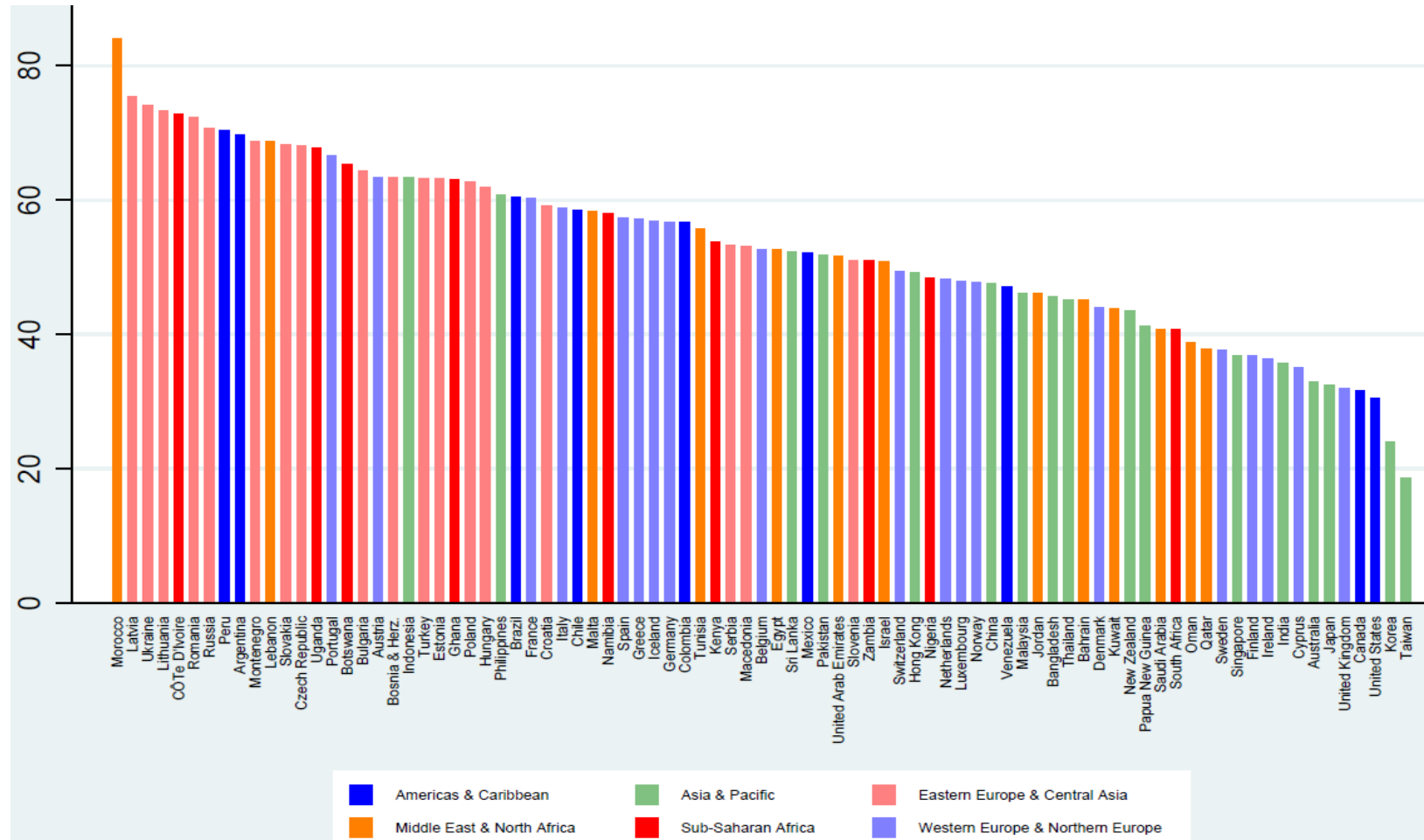
RIETI – ECGI – WBF Webinar

May 20, 2021

Ownership

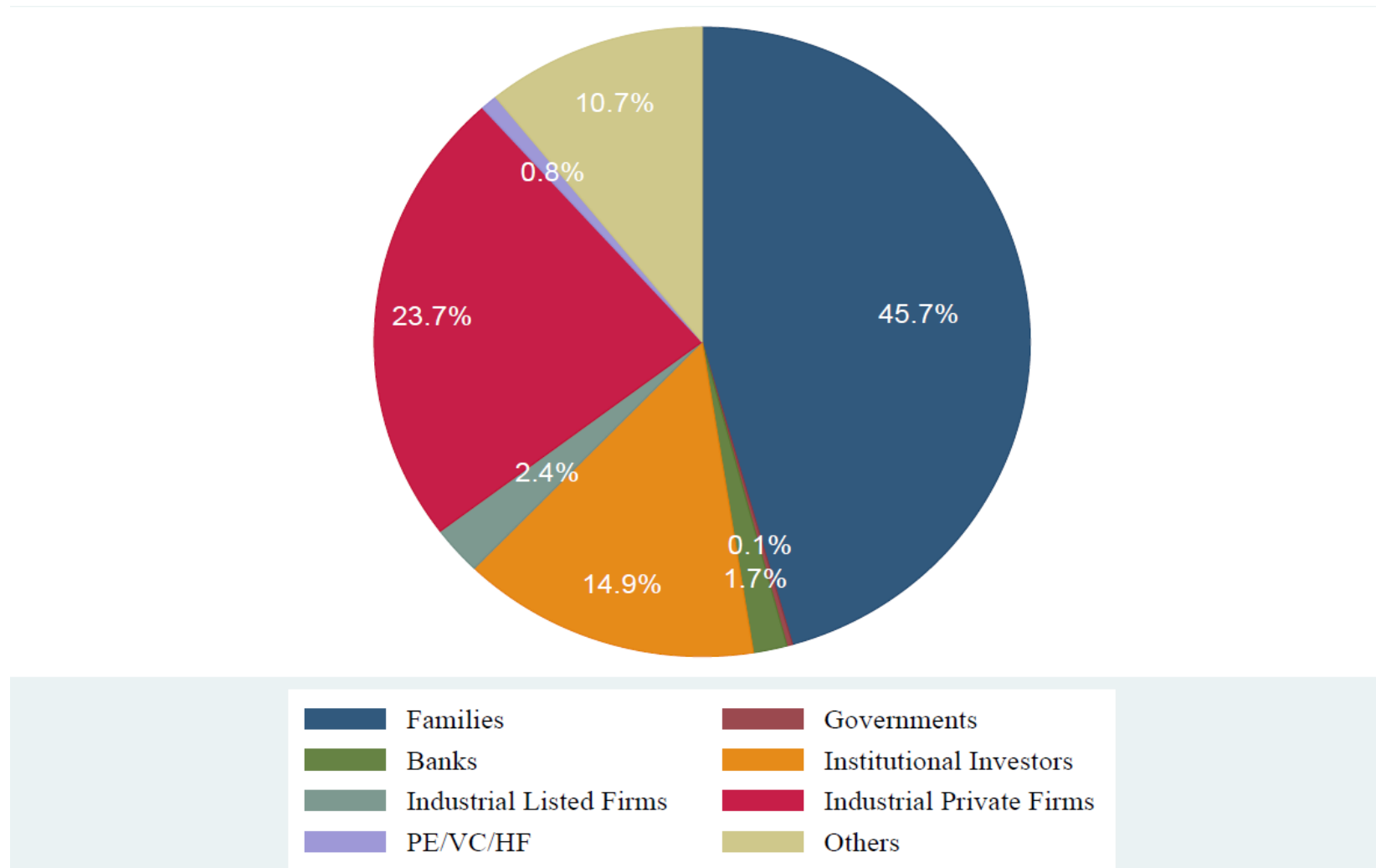
Colin Mayer

In Most Countries Ownership Is Concentrated



Source: Aminadav, Gur and Elias Papaioannou (2016), "Corporate Control around the World", Working Paper,

Families Dominate Ownership in 85 Countries in 2012

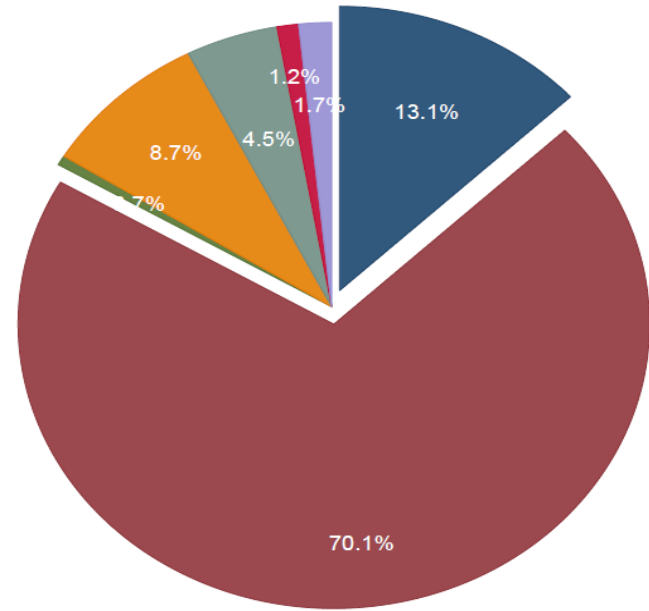


Source: Aminadav, Gur and Elias Papaioannou (2016), "Corporate Control around the World", Working Paper,

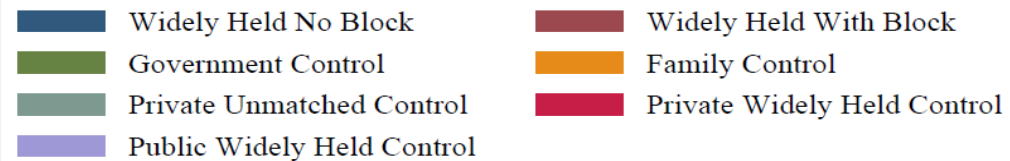
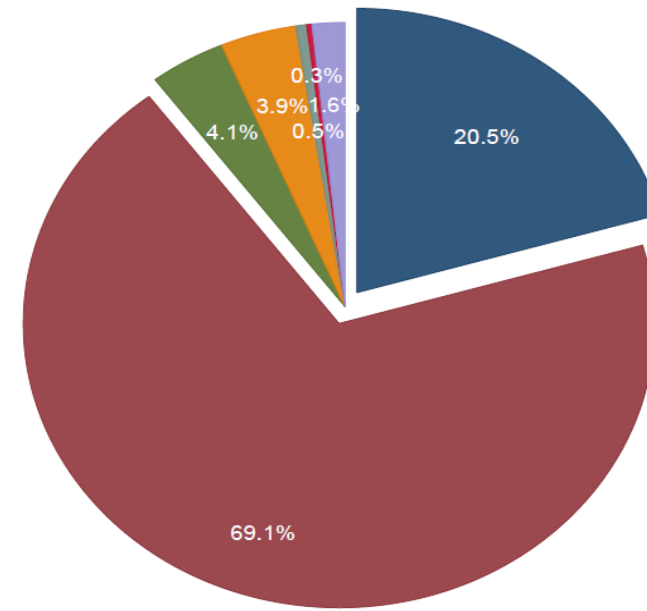
But Not in the UK

United Kingdom Type of Control in 2012 - Total of 1,347 Firms with Market Value of 2,445 Billion USD

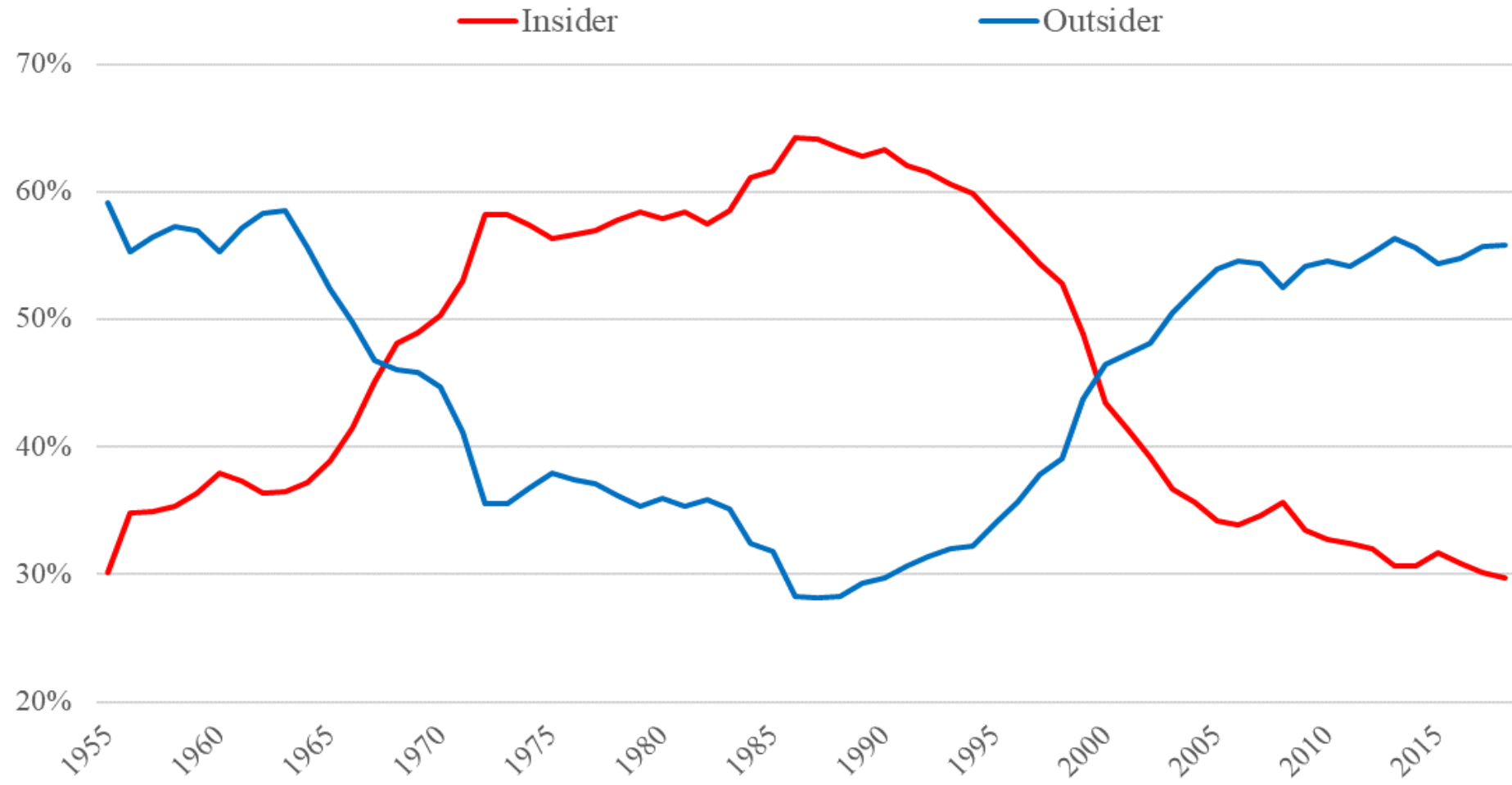
Number of Firms



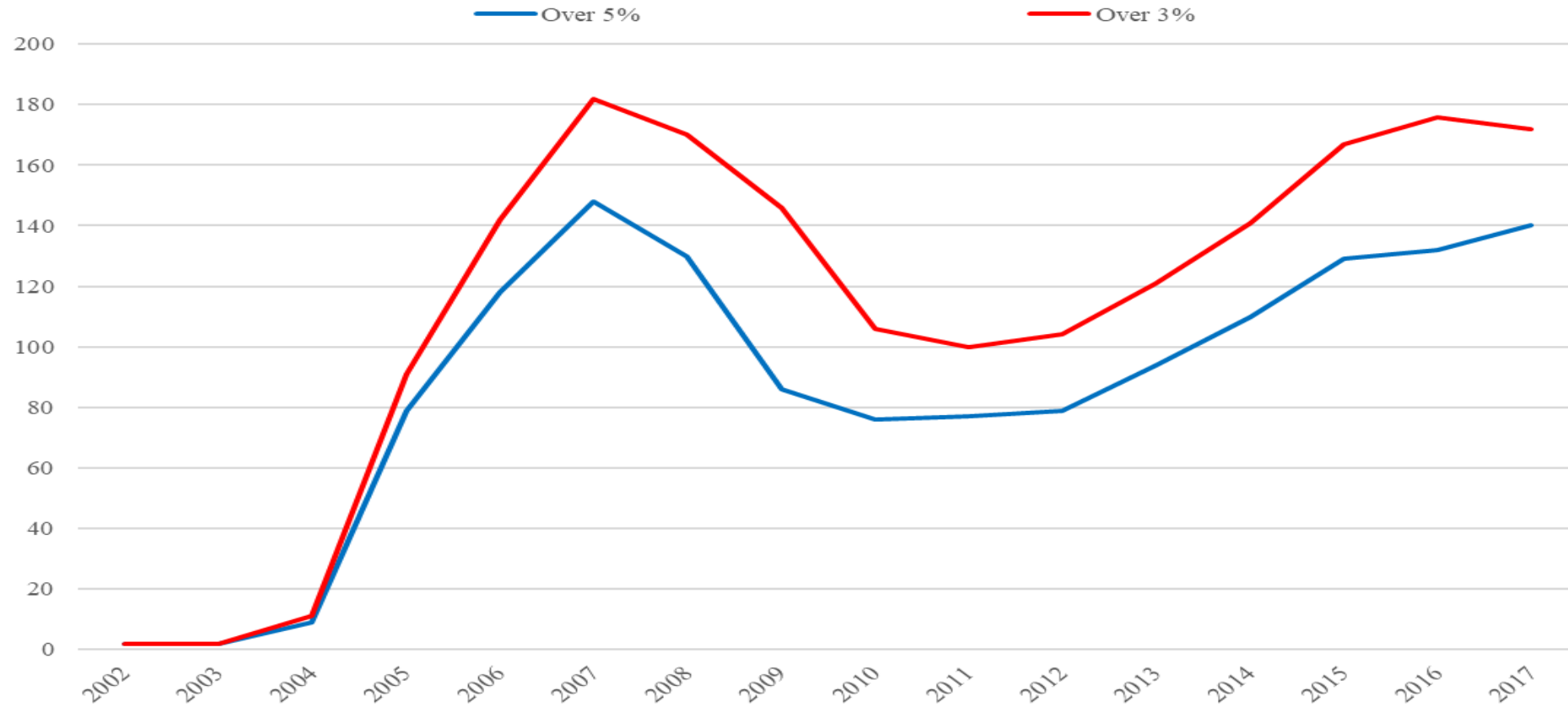
Market Value of Firms



Insider vs. Outsider in Postwar Period



Trend of Activism in Japan



Concepts

- Purpose and Strategy
- Shareholding and Ownership
- Agency and Trusteeship
- Activism and Acquisition

Purpose and Strategy

- Purpose reason why company exists, why it is created, its reason for being
- Strategy what the company does
- Purpose to produce profitable solutions to problems of people and planet, not profiting from producing problems for either
- Framework for strategy

SCORE

- Simplify
- Connect
- Own
- Reward
- Exemplify

Shareholding and Ownership

- Shareholding – sharing of a holding
- Ownership – possession of and responsibility for business
- Shareholders not owners (Honore and Kay)
- Who then are the owners?

Agency and Trusteeship

- Directors are agents managing shareholder assets on their behalf
- Fiduciary responsibility of directors to investors
- Trustees managing assets on behalf of the company
- Fiduciary responsibilities of trustees to the parties to the company

Shareholder Primacy – s.172 Para (1)

- A director must act to promote the success of the company for its shareholders and in doing so have regard to the long-term and the impact on other stakeholders

Corporate Purpose – s.172 Para (2)

- A director must act to promote the purpose of the company

Corporate Purpose – s.172 Para (2)

- A director of a company must act to promote profitable solutions to problems of people and planet not profiting from producing problems for either

Ownership

Traditional approach:

- Directors are agents of shareholders
- No ownership with dispersed shareholders

Purpose approach:

- Directors are trustees of the company purpose
- As trustees they have ownership rights and responsibilities for the company's purpose

Accountability

Traditional approach:

- Directors are accountable to shareholders for the success of the company
- Rights of appointment and removal of directors reside with shareholders

Purpose approach

- Directors are accountable to all parties contributing to the company purpose
- Rights of appointment and removal of directors reside with those parties specified by the company's constitution

Examples of Ownership of Purpose

- Supervisory board of two-tier board
- Employee benefit trusts
- Industrial foundations
- Bank holdings during banking era in Japan
- Cross-shareholdings today

Role of Outside Shareholders

- Share price source of information on corporate performance
- Promotes corporate efficiency and focus on shareholder value
- Potential source of external risk capital

Activism and Acquisitions

- Activism change in leadership and strategy
- Focus on corporate efficiency and shareholder value
- Activism and PE engagement 3 to 5 year horizon
- Wealth creation or wealth transfer?
- Ownership of purpose retains accountability to other stakeholders
- Quiet activism required for support of insiders
- Acquisitions change ownership as well as strategy

Importance of Purpose, Ownership, Trusteeship

- Long-term perspective
- Focus on problem solving
- Avoidance of wealth transfers or profiting from problems
- Protection of environmental and societal interests

Importance of Strategic Engagement, Outside Shareholders and Agency

- Focus on efficiency and performance
- Potential for engagement and activism to enhance performance
- With purpose, ownership and trusteeship avoids wealth transfers

Who Should Be Long-Term Owners?

- Domestic insurance companies, pension funds, e.g. GPIF
- Employee ownership or benefit trusts
- Foundations

Conclusions

- Diverse forms of ownership around the world
- In general, large block holders in even the largest listed companies
- Blockholders often families but not in Japan
- Insider system of ownership in hands of banks and corporate holdings
- Reason for parallel system in context of purpose and strategy
- Dispersed shareholders not owners
- Ownership of purpose, accountability to several parties
- Retains focus on long-term and avoidance of wealth transfers
- Increased activism promotes stronger efficiency, performance
- Several possible owners of purpose over long-term