Shareholder Mobility in five European Countries

JEL Classification: G32, G34, K22.

Abstract.

This paper provides new evidence on the evolution of ownership of a large sample of companies in five European countries – Belgium, France, Italy, Spain and the UK - between 1999 and 2007 to understand ownership dynamics and the influence of legal developments on ownership patterns. It starts with a classification of the different strands in literature of ownership.

Over the period of 1999 to 2007 35% to 48% of all companies in the 1999 sample were delisted. In the remainder of the companies, ownership concentration decreased slightly over the last 8 years in three countries –France, Italy and Belgium- but increased in two others, Spain and the UK. The largest shareholder has on average a voting block between 35% and 45% in France, Spain, Italy and Belgium, in the UK around 20%. In the latter country there are many other large shareholders with a stake of more than 5%, hence reducing the powerful position of the largest shareholder. In the other countries the other large shareholders own collectively less than 50% of the voting block of the largest shareholder. The latter reins the general meeting of shareholders.

In France, Italy and Belgium approximately half of the companies have a de jure controlling shareholder. The numbers are decreasing. In Spain the number of controlled companies increased slightly to 30%, in the UK it remained stable at around 5%. In Spain and the UK the largest group are companies with a shareholder with a voting block between 10% and 30%. In all four continental countries the number of companies with a widely dispersed ownership structure is around 10%. In
Belgium, Italy and France more companies developed towards the Berle and Means corporation, in Spain and the UK the number decreased.

In all civil law countries in this study, the majority of the largest shareholders are families or non-financial companies. However there are large differences between the civil law countries as well as over time. In France and Belgium families became more important and non-financial companies less important, in Italy the converse pattern is found, in Spain both types became more important due to the sale of stakes by banks and foreign shareholders. In Belgium and France foreign shareholder became the second most important group of largest shareholders. In Italy foreign shareholders are the third most important class of largest shareholders (after non-financial companies and families).

In the four continental European countries families are present in 35% to 55% of all listed companies, much more than in the UK where only one in four companies has one or more individuals – often board members – as major shareholders. The presence of board members in the shareholder orbit results in an average of 3 individuals in each UK listed company with individuals. In the UK and Italy direct family ownership is decreasing, in the other countries this type of shareholder acquired more stakes. Families have different investment policies in the different countries. In France and in Italy they acquire de facto controlling shareholder blocks of 30% to more than 40%; in the UK, Spain and Belgium the average voting block of the family is less than 20%. Only in the latter country this average voting block changed over time from 23% to 19%. In all other countries the difference over a period of 8 years is less than 1%.

Non-financial companies are another important class of shareholders, at least in continental European countries. In 60% of all Spanish companies a non-financial company is a major shareholder. In Italy and Belgium this type of shareholder holds stakes in more than 40% of the companies. In one out of four listed companies, non financial companies are major shareholders in France and the UK. There are major differences between in investment policies of non-financial companies in continental countries. In Belgium and France non-financial companies disappeared between 1999 and 2007 as major shareholders in one out of five companies; in Spanish and Italian companies non-financial companies acquired significant stakes. Overall non-financial companies acquire only one to sometimes two significant stakes in listed entities. In
Italy, where the number of companies with a non-financial company as major shareholder increased, non-financial companies hold on average a de facto controlling voting block of more than 33% in over 40% of the listed entities with this type of shareholder. In France non-financial companies diminished their average stake from over a de facto controlling block to a non blocking minority of 27%. In Belgium and Spain this type of shareholder hold on average 20% of the voting rights, still well above the average voting block of the non-financial shareholder in a British company, which holds on average 14% of the votes.

The investment behaviour of banks significantly differs from country to country and over time. In Spain one listed company out of three has a bank as major shareholder. In the other countries the number is approximately one bank as major shareholder in every seven listed companies and even less in Belgium. Next, since 2001, British banks acquired a large number of major stakes in listed British companies. This development goes hand in hand with a significant decrease in the average size of the stake. If a bank is in the shareholders orbit, listed companies have only one bank as major shareholder. In Spain this average of number of stakes is significantly higher. In France, banks increased their average voting block to almost 25%, more than in Italy and Spain where the average voting block of banks is around 20%. In the UK and in Belgium, banks do not acquire highly influential voting blocks. The average UK and Belgian bank’s stakes are less than 10%.

Insurance companies were major shareholders in the UK at the turn of the millennium. In one out of every five British companies they held a major voting block. Since 2001, British insurance companies significantly reduced the number of blocks to one out of every seven companies, still well above the average in continental Europe where only one in every twenty companies has an insurance company as major shareholder. All over Europe, there is evidence that insurance companies acquire large stakes, though not controlling voting blocks. The average voting block of 7% in Spain to 14% in Italy reflects this finding. With the exception of Italy, where a small number of insurance companies act as a member of a concerting shareholder group, insurance companies spread their risks in many smaller blocks to optimize returns.

The government is only a major shareholder of listed entities in three countries. In the UK and in Spain this type of shareholder completely disappeared. In France and Italy privatisation processes continue and the number of companies with government
shareholdership is reduced. In Belgium, the regional government acquired, via investment funds, minority blocks in two Walloon companies, hence resulting in an increase in the number of Belgian companies with government ownership. In all three countries the government reduced the size of its ownership blocks. In France the average voting block decreased from 34% to 20%, in Italy from 49% to 37% and in Belgium from 40% to 22%. In the latter country this is due to the increase in the number of stakes. The “old” voting blocks of the government decreased, but only from 40% to 30%.

The development of ownership structures proves the continuous globalisation and internationalisation. In all countries more companies are confronted with foreign shareholders. In the UK more than half of the companies have a foreign shareholder. Foreign shareholders are the largest group of shareholders, measured by the number of companies in which a shareholder class is present in four countries. Spain is the only exception. The number of companies with a large foreign shareholder decreased from 50% to one of each three companies. In the three other countries the number lies between 34% and 38% of all companies in 2007, up from 22% to 30% in 1999. The total number of companies with a foreign shareholdes and the number of stakes per company increased whilst the average voting block did not change significantly except in Italian companies where it even soared. The differences in the average size of the voting blocks of foreign shareholders remained: foreign shareholders have average voting blocks between 10% and 15% in the UK and Spain and between 20% and 30% in the other countries. These averages hide substantial differences. Foreign shareholders could be further classified among the same shareholder classes. Individual and non-financial foreign shareholders hold on average larges stakes than institutional foreign shareholders like insurance companies and banks.

This detailed analysis of ownership over eight years allows a more detailed analysis of its relationship with company and securities law. La Porta and others (1998, hereafter: LLSV) argued that large voting blocks serve as a substitute for weak investor protection rights. Lele and Siems (2007) developed the LLSV’s index of investor protection rights in two indices relating to the protection against board and management and protection against other shareholders. Their database is used for two countries – France a large civil law country and the UK, a common law country - to study the relationship between company and securities law development and
ownership structures. In both countries the board protection index increased: 3% to 4% in the UK and 7% to 10% in France in the years before the year for which the data of the ownership were collected. The shareholder protection index did not change in the years before the year for which the data of the ownership were collected. Hence and given LLSV’s hypothesis, it can be expected that more companies will become widely held whereas the sum of stakes of all but the largest shareholder will be stable. The results by and large confirm LLSV’s thesis, though the relationships are relatively weak. In France the number of de jure controlled companies decreased with 4%, the number of de facto controlled companies declined even with more than 7%. In the UK the differences in the numbers of controlled companies are negligible. In French companies with a de jure or a de facto controlling shareholder in 1999, the voting stakes of all other major shareholders increased in 2007 in half of the companies whereas only in 1/3 of the companies their voting blocks decreased. As the protective measures for minority shareholders did not improve in France, a large group of minority shareholders increased their voting blocks as a second best substitute. In British companies with a de facto or a de jure controlling shareholder in 2001, the number of companies where the other major shareholders increased their stakes is equal to the number of the companies where the voting blocks of these shareholders decreased. Finally, all different shareholder types, with the exception of families, decreased their median voting blocks in French companies. In the UK with the exception of the position of banks all other types of shareholder classes have identical median vote blocks.