MASARYKOVA UNIVERZITA
EKONOMICKO-SPRÁVNÍ FAKULTA

Corporate Governance

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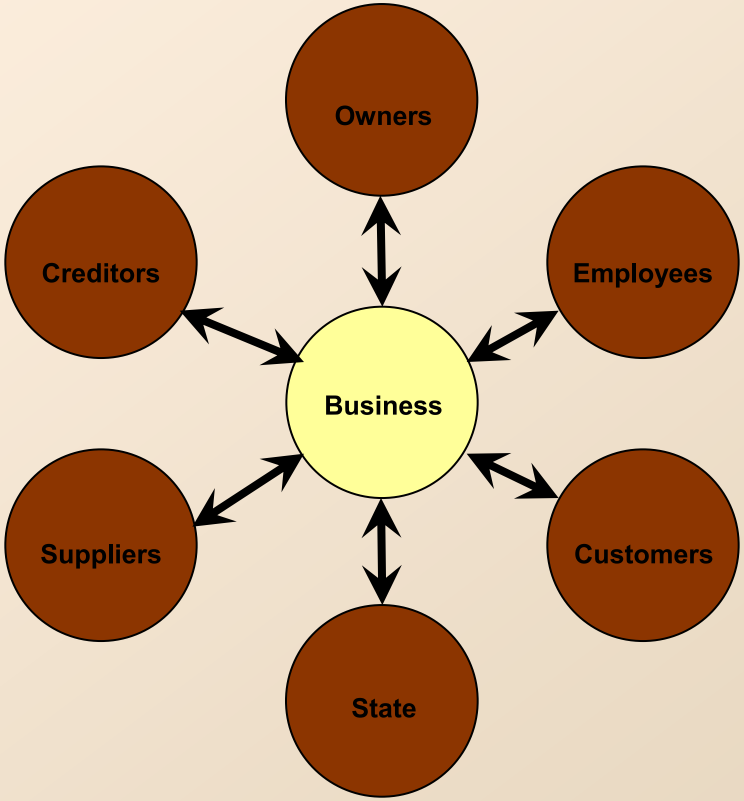
Owners` status



Differences according to the type of business entity

- Sole proprietorship
- Limited/unlimited liability
- Partnerships/companies/corporations

Different expectations of owners

The motivation to do business is not always the same.

While for some the main incentive can be the profit, others prefer stability, some want to carry on a family tradition or for some it can be a form of self-realization.

Differences in use of the power

Depends on:

- Participation of owners on managing the company
- Structure of the key players
- Ownership structure

Participation of owners on managing the company

- Fully involved in sole proprietorship businesses
- Fully involved in companies with unlimited liability, but not necesserily all owners
- Markedly less involved in limited liability companies
- Rarely involved in corporations
  - Sometimes we talk about managerial ownership

Structure of the key players

- Owners are the statutory and managing body in sole proprietorships and often in unlimited liability companies
  - Partnership agreement (and law) can determine differently

- Corporate governance laws define the distribution of rights and responsibilities among participants in corporations
  - The ownership and management are definitely separated

Ownership structure

Important features of ownership structure are

- Ownership concentration
- Type of owner
  - Natural person
  - Institutional: investment funds, banks, state, municipalities, other companies
  - Domestic, foreign

Corporate Governance models

Three basic models are used in developed economies:

1. Anglo-american (aka Anglo-Saxon model)
2. Continental (often called German model)
3. Japanese

Anglo-american model

So-called one-tier, or external control model

General meeting elects the Board of Directors (BoD)

- part of them are insiders (executive directors), part of them outsiders (non-executive or independent directors)
- BoD chairman is often also CEO

Required are liquid stock markets and low ownership concentration

Control is exercised, among others, through the exit system

Until recently, laws against close connections between companies and their banks in the USA

Ownership pattern

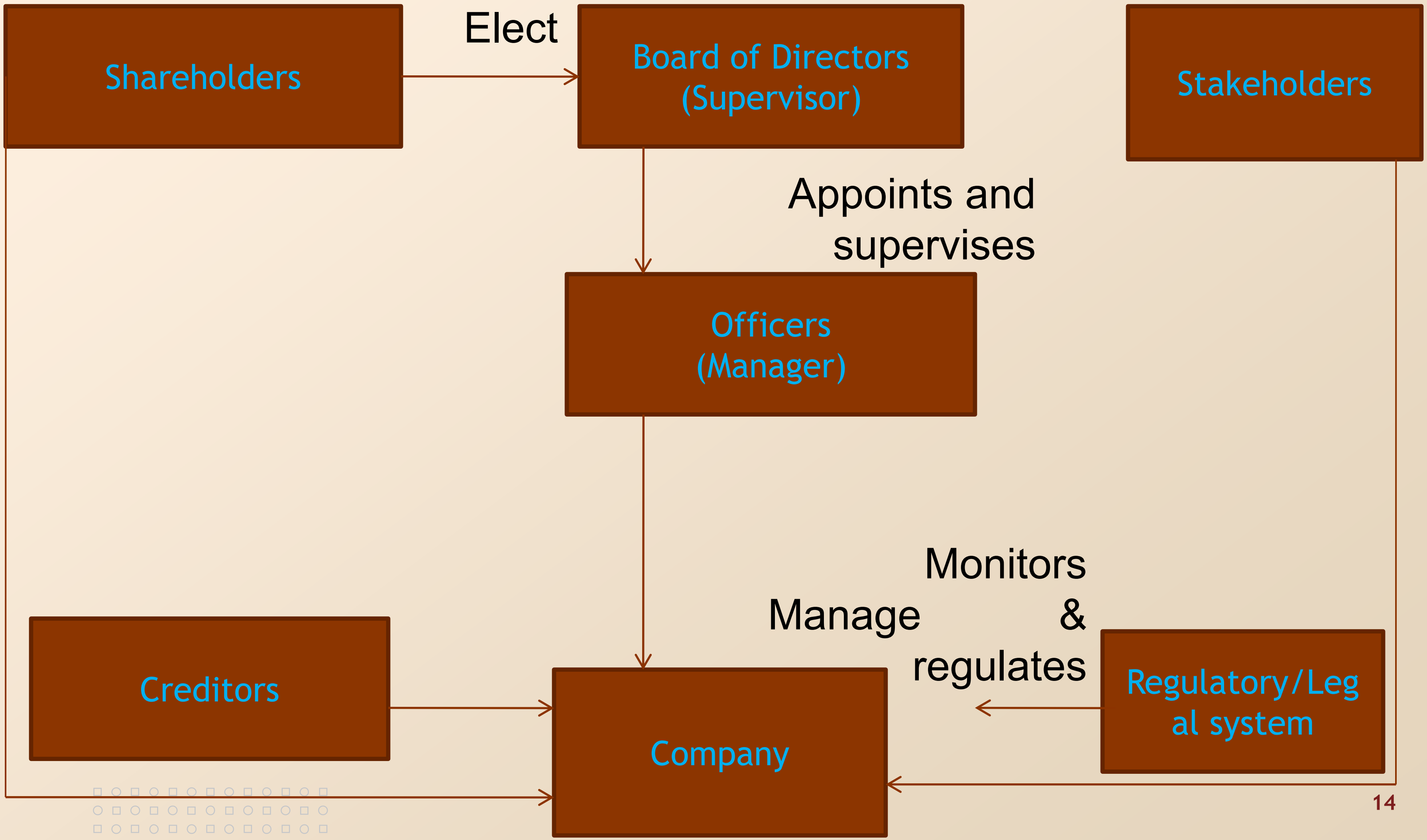
In 1990, institutional investors held approximately 61 percent of the shares of UK corporations, and individuals held approximately 21 percent. (In 1981, individuals held 38 percent.)

In 1990, institutions held 53.3 percent of the shares of US corporations.

Trends and issues

- Growing share of institutional owners, decreasing share of individuals
- Voting behavior of institutional owners at AGMs
- Concentration of power in the hands of one person or small group of persons
- Excessive executive compensation
- Regulatory framework reacts

Interactions among key players



Continental model

So-called two-tiered model, or internal control model

General meeting elects supervisory board and management board

- in some countries supervisory board names members of management board
- it is common that part of the supervisory board is elected by employees (up to 50%, sometimes depend on the firm size)

Management board is the statutory body and is responsible for „daily“ management of the company, supervisory board si responsible for the strategic control.

Control is exercised, among others, through the voting system.

The connection between the company and a bank can be very close.

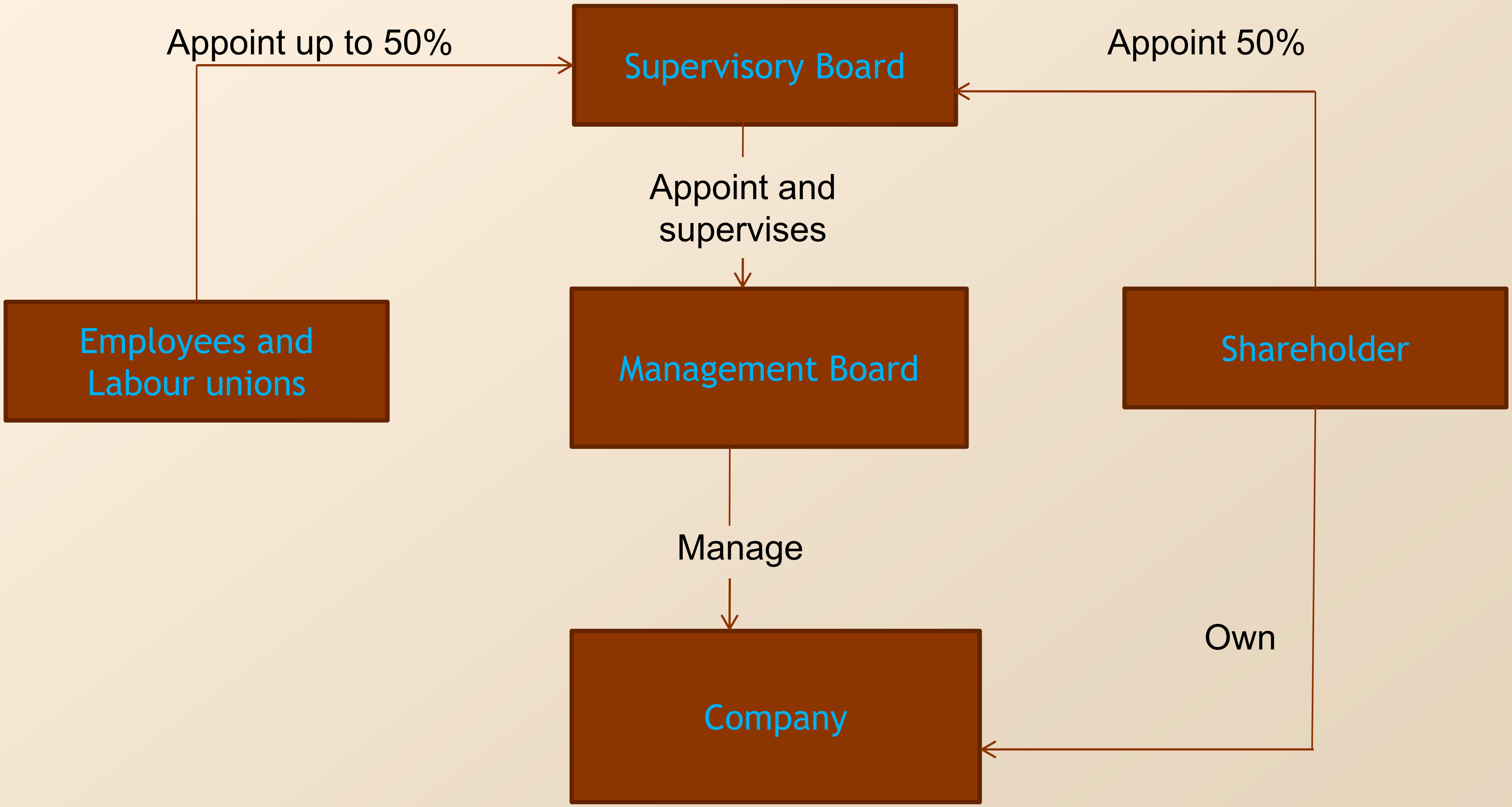
Ownership pattern

Banks	27%
Pension funds	3%
Other companies	41%
Individual owners	4%
Foreign investors	19%

Trends and issues

- The ownership concentration still increases
- Capital markets are illiquid
  - therefore capital allocation is not perfect
- European commission wants to encourage individuals to invest in securities
  - however the typical european behavior saved EU from larger impact of 2008 financial crisis

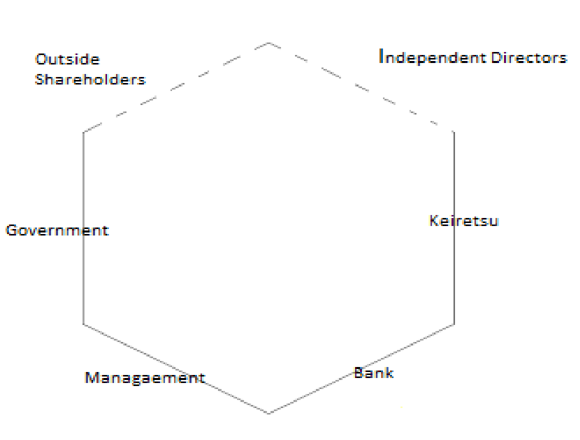
Interactions among key players



Japanese model

So-called Keiretsu. Model with even higher interconnectedness among the key players than the continental model. The key players are:

1. Main bank (a major inside shareholder)
2. Affiliated company or affiliated keiretsu (a major inside shareholder)
3. Management
4. Government
5. Outside shareholders
6. Independent (external) directors



Typical is very high ownership concentration and cross-shareholding

Ownership pattern

Banks + insurance companies	43%
Other companies	25%
Foreign investors	3%

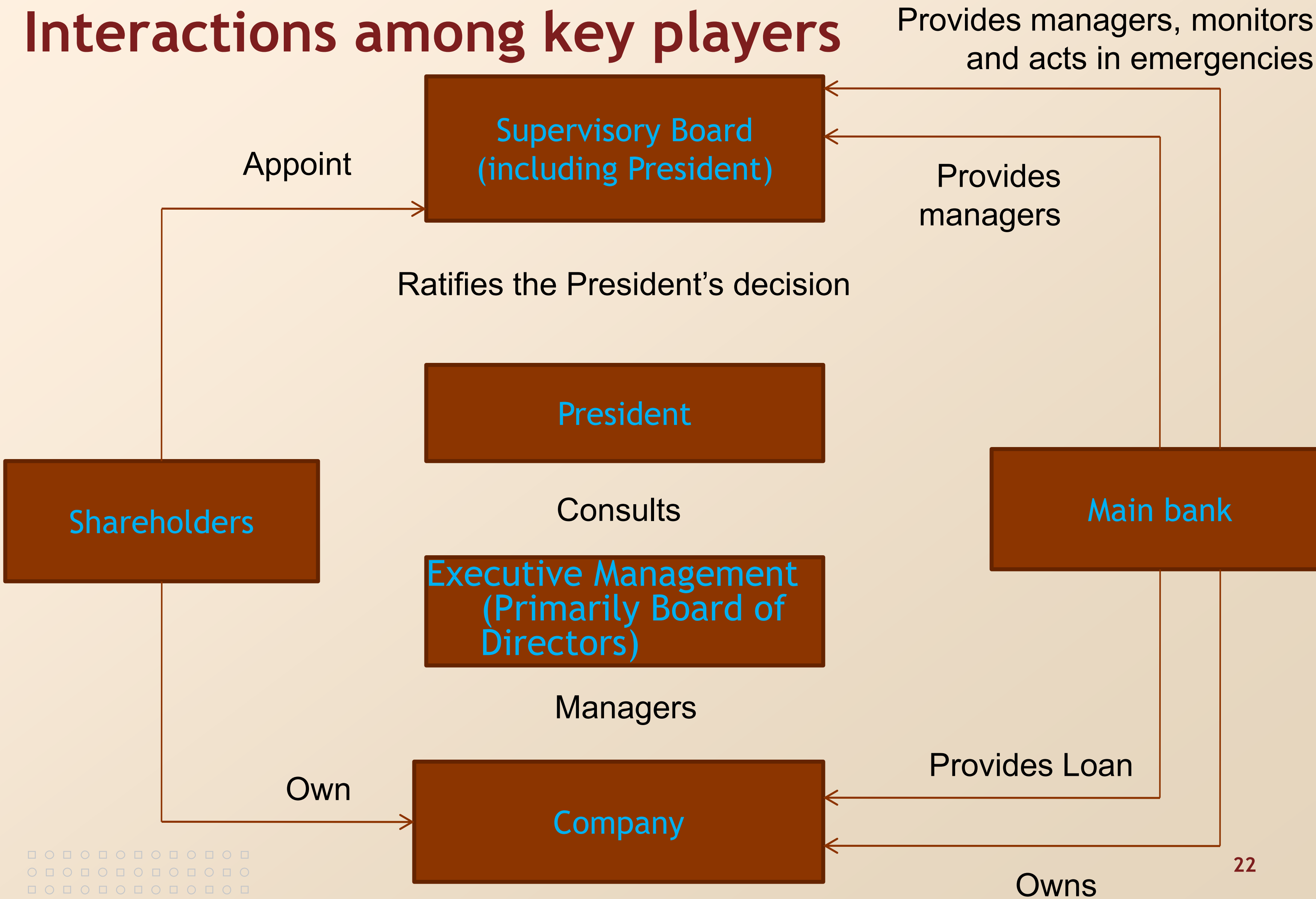
Trends and issues

Very non-transparent for outsiders

Very rigid

The strong crossholdin of equity and debt and strong business relationships can woek in favor of competitiveness, but also against it

Interactions among key players



Thank you for your attention

Sources

Graphics (interactions among key players, 3x) borrowed from Dushyant Maheshwari`s lecture Models of Corporate Governance, retrieved from SlideShare

Ownership patterns data obtained from Joy Clarisse Dagala`s Chapter 4: Models of Corporate Governance, retrieved from SlideShare