

What Makes Controlling Ownership Different?

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Background

- **"Mainstream" Corporate Governance:**
 - Geared to **public companies** / dispersed shareholders
 - Controlled companies **underestimated**: number / performance
 - Rigid rules / demands may lead to **regulatory distortion**
- **Different types** of controlled companies:
 - Founder / **family** control
 - **State** majority ownership
 - **Parent** company control etc.

Family Companies

- **Long term strategies:**
 - **Relative** performance rather positive
 - **Monitoring** advantages
 - Less economic incentives to cheat?
 - **Soft** factors: (family) values pay
- **Corporate Governance risk map:**
 - "**Tunnelling**": transfers, equity dilution
 - **Entrenchment**: succession / crisis
 - Control transactions: **control premia**?

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- **Global company:**
 - Elevators / escalators
 - > 44.000 employees
 - Market cap: **\$ 15 bio.**
 - Performance: **+ 1500%** / 25 years
- **Shareholders:**
 - **> 70% family** / < 50% capital
 - 4th **active** generation
 - **Control premium**: high emphasis

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- **Board:**

- 10 members / **6 independent**
- **Board committee:** family control
- **Related party** transactions:
 - **Disclosure**
 - Independent **Board Members**

- **Culture:**

- Strong **active Chairman** (formerly also group CEO)
- **Values** as drivers (e.g. compliance, quality, safety)
- "**Profit is a result, not a goal!**"

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Mandatory Bid Rules

- EU v. Switzerland: "**Opt out**" option
- "Rent Protection" (Bebchuk) v. "**Deferred Compensation**":
 - **Underdiversification** / illiquidity
 - Monitoring **costs** / public and legal **exposure**
- **Dual class shares:**
 - Protection of **control**
 - Protection of **control premium?**

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Conclusions

- "One size does not fit all":
 - Regulators
 - **CG-ratings** / proxy advisors
- Regulatory **Level Playing Field**:
 - Flexible (**self-**) regulation
 - Opt outs / legal exemptions
- Differentiate between **different control owners**:
 - Private **individuals**: founders, families
 - **Institutional** controllers: state, parent, foundations

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