

ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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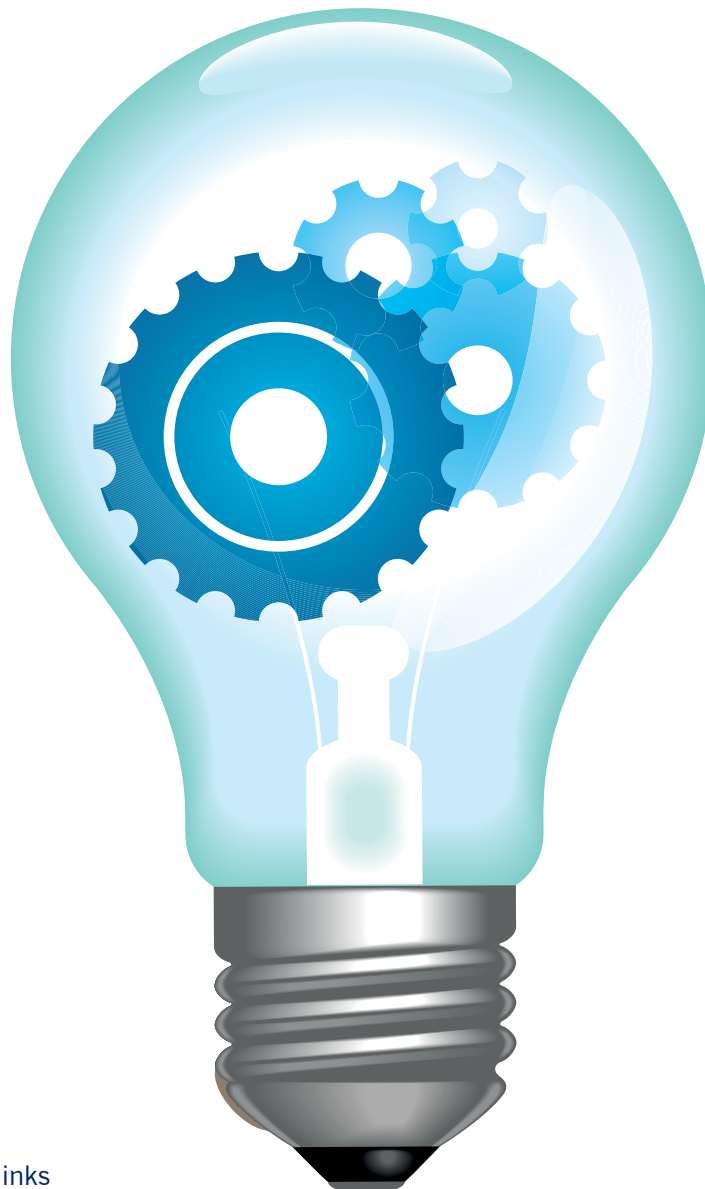
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The effect of blockholders in corporate governance

by Hans van Oosterhout, Pursey Heugens and Marc van Essen

Unlike the Anglo-Saxon model, whereby ownership of publicly traded companies is typically in the hands of dispersed shareholders, in continental Europe ownership often lies in the hands of what are known as ‘blockholders’. But how does this affect corporate governance, especially when employees, protected by strong labour institutions, are also powerful?

Ask any investor what corporate governance is about, and it is very likely that they will say that it is about the question of how shareholders of publicly traded firms can make sure that they get a return on their investment. That this will happen is not always obvious, given that professional managers, who may seek to serve themselves rather than the shareholders, call the shots in the firms they own.

In practice, however, this dominant way of thinking about corporate governance only applies to the US and the UK, where publicly traded firms are owned by highly dispersed and individually relatively powerless shareholders, and where managers therefore have ample opportunity to serve themselves rather than the shareholders.

Things are quite different in continental Europe, however, where the ownership of public firms is typically in the hands of a few large and hence powerful ‘blockholders’, and where, next to shareholders, employees are

also powerful and well protected by labour institutions. Does this mean that continental European corporate governance does not fit the currently dominant Anglo-Saxon way of thinking about corporate governance?

A recent meta study that we’ve published – *Competition and Cooperation in Corporate Governance: The Effects of Labour Institutions on Blockholder Effectiveness in 23 European Countries* – confirms that corporate governance in continental European countries differs from the currently dominant Anglo Saxon model in a number of critically important ways.

Hands-on approach

As explained above, first, continental European firms are often owned by a few large ‘blockholders’, some of whom are actively and durably involved in the firms they own. Combining all research findings on European corporate governance to date, the study presents evidence that such ‘relational investors’ typically add more value to firms than

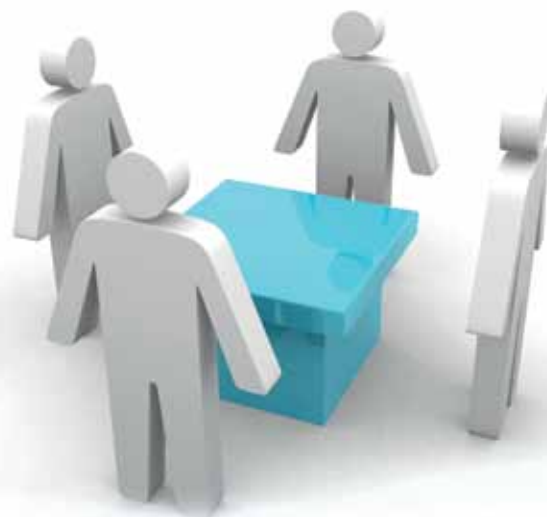
institutional investors. The latter often take a hands-off approach towards the firm’s managers.

With so many firms to pay attention to, institutional investors simply cannot afford to be actively involved with any particular firm they own. If institutional investors are unhappy with how a given firm performs, they prefer to sell their shares in the firm rather than become actively involved in its management, which in the short run will depress rather than boost firm value.

In contrast, relational investors are both able and motivated to get involved in the firms they own, and on the balance of the available empirical evidence to date, it turns out that their involvement matters positively for firm value.

A second important difference between Anglo-Saxon and continental European corporate governance involves the role of employees. In most continental European countries, employees are organised in strong labour unions and are well protected by labour laws protecting them against dismissal and giving them voice in the companies they work for.

Whereas mandatory works councils are found in many jurisdiction, in places like Finland or Germany employee representation also involves seats on the corporate board. This means that collective employee



interests are a force to be reckoned with in continental Europe. European corporate governance should therefore perhaps be more concerned with powerful employees than with powerful managers. Although protagonists of the Anglo-Saxon corporate governance model have acknowledged the power of employees in continental European firms, they tend to conceive of the relationship between shareholders and employees as an adversarial one in which the two parties compete for the largest slice of a given corporate pie. This is different in many continental European countries, which brings us to the third difference with the dominant Anglo-Saxon corporate governance model.

In contrast to so-called 'liberal market economies' such as the United Kingdom and Ireland, in which capital and labour compete with each other through competitive factor markets, so-called 'co-ordinated market economies' like Denmark, Sweden, and the Netherlands have developed labour institutions that enable active co-operation for mutual benefit between blockholding shareholders and organised employee interests.

Thus labour laws that protect employees against dismissals, for example, can actively stimulate employees' investments in valuable firm-specific skills that they would

not make without some form of employment protection. Also, labour institutions that increase employee voice in the firm engender the type of co-operation between blockholders and employee interests that facilitate the kind of continuous innovations and quality improvements that German Mittelstand firms are known for.

Better labour protection is not just a blunt weapon that workers bring to the negotiation table when it is time to set new collective agreements or develop extensive social plans in times of corporate crisis. It is in many cases a much gentler instrument that gets blockholders and workers alike interested in jointly enlarging the corporate pie rather than splitting the one currently in front of them. ■

▶ RSM Expertise

The Department of Strategic Management & Entrepreneurship at RSM offers unparalleled expertise in a wide range of areas of importance to managers and scholars. These areas are grouped under the themes of strategic management, strategic entrepreneurship, and global strategy. More information about the department and its work can be found at: [WEB www.rsm.nl/sme](http://www.rsm.nl/sme)

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The paper *Competition and Cooperation in Corporate Governance: The Effects of Labour Institutions on Blockholder Effectiveness in 23 European Countries* is written by Marc van Essen, J (Hans) van Oosterhout and Pursey P M A R Heugens. Forthcoming in *Organization Science*.