Strong Managers and Passive Institutional Investors in the UK

European Corporate Governance Network

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This paper will be a chapter in an OUP-Book: Ownership and Control: A European Perspective

First Version: 28 January 1998

Final Version: 8 February 1999

The authors are grateful to Marco Becht, Currim Oozeer and Colin Mayer for valuable comments. Data for this research were generously provided by Bureau van Dijk, Brussels.

Please consult the ECGN website for future updates of this paper **(http://www.ecgn.org).**

Abstract

The first striking feature is that ownership of the average UK company is diffuse: a coalition of at least eight shareholders is required to reach an absolute majority of voting rights. Even though the average firm has a dispersed ownership, the reader should bear in mind that there are about ten per cent of firms where the founder or his heirs are holding more than 30 per cent. The ownership structure is also shaped by regulation; the mandatory takeover threshold of 30%, for example, has an important impact on the ownership structure. In about 4% of sample companies, corporate shareholders hold just under 30 per cent of the shares. Second, institutional investors are the most important category of shareholders. However, they tend to follow passive strategies and often do not exercise the votes attached to their shares. Third, the passive stance adopted by institutions increases the already significant power of directors, who are the second most important category of shareholders. Franks, Mayer and Renneboog (1998) show that when directors own substantial shareholdings, they use their voting power to entrench their positions and they can impede monitoring actions taken by other shareholders to restructure the board, even in the wake of poor corporate performance. Fourth, there is an important market for share stakes and share stakes do not tend to be dispersed. Fifth, some of the characteristics of the British system of corporate governance, such as the proxy voting and the one-tier board structure, further strengthen the discretionary power of directors. Therefore, the main agency conflict emerging from the diffuse ownership structure is the potential expropriation of shareholders by the management.

Keywords: corporate governance, capital and ownership structure

JEL: G32, G34

Executive summary

The ownership structure of listed companies in the UK is very different from the one of Continental European listed firms. The first striking feature is that ownership of the average company is diffuse: a coalition of at least eight shareholders is required to reach an absolute majority of voting rights. Even though the average firm has a dispersed ownership, the reader should bear in mind that there are about ten per cent of firms where the founder or his heirs are holding more than 30 per cent. The ownership structure is also shaped by regulation; the mandatory takeover threshold 30%, for example, has an important impact on the ownership structure. In about 4% of sample companies, corporate shareholders hold just under 30 per cent of the shares. Second, institutional investors are the most important category of shareholders. However, they tend to follow passive strategies and often do not exercise the votes attached to their shares. Third, the passive stance adopted by institutional investors increases the already significant power of directors, who are the second most important category of shareholders. When directors own substantial shareholdings, they use their voting power to entrench their positions and they can impede monitoring actions taken by other shareholders to restructure the board, eve in the wake of poor corporate performance. Fourth, there is an important market for share stakes and share stakes do not tend to be disappear. Fifth, the one-tier board structure further strengthen the discretionary power of directors.

Corporate governance mechanisms such as hostile takeovers and the market for share stakes do not seem to operate well in the UK. Consequently, it seems to be clear that a larger proportion of independent non-executive directors or a separate supervisory committee are required to curb the potential agency conflicts between a company's management and its shareholders. Remuneration plans linking managerial compensation directly to performance will also result in a better alignment of managerial and shareholder goals. A stricter legal definition of the fiduciary duty of directors will allow courts to rule more efficiently on directors' responsibilities. The Cadbury (1992) Committee, the Greenbury (1995) Committee and, currently the Hampel Committee have proposed codes of corporate governance and remuneration. The establishment of an independent regulatory body advising the pay-for-performance issue, controlling board composition, governing minority protection will ensure a limit to the potential UK agency conflicts.

1. Introduction

The European Directive on ownership transparency, officially known as "Council Directive 88/627/EEC on the information to be published when a major holding in a listed company is acquired or disposed of", required only limited changes to existing UK law. The UK has traditionally been the EU Member State with the most extensive investor protection and most stringent rules on the disclosure of equity stakes. The implementation of the Directive was regarded as 'a harmonisation measure, which would "pull up" other systems towards the UK standard' (Dine 1994).

The implementation of EU ownership disclosure rules in Continental European countries has highlighted the striking differences of the characteristics of ownership and voting rights with those of the UK. The UK differs from her European partners not only in terms of a higher proportion of firms that are listed on the stock exchange, but also in terms of ownership concentration and the main shareholder classes. Furthermore, the UK is the only European country with an active (hostile) market for corporate control (Franks and Mayer 1995).

Whereas a large majority of listed companies from Continental European countries have a dominating outside shareholder or investment group, most UK firms are controlled by their insider shareholders (the management and members of the board of directors). Share ownership could influence managerial behaviour in two ways. On the one hand, ownership of equity changes the management's incentives such that they pursue share price maximising strategies. On the other hand, substantial ownership stakes may lead to expropriation of minority shareholders. Managers owning a large percentage of voting rights might derive private benefits from their executive and board positions, which they can insulate from monitoring and disciplinary actions in the case of corporate underperformance. Therefore, large voting stakes held by insiders may not necessarily lead to performance improvement. For the UK, Franks, Mayer and Renneboog (1998) show that disciplinary actions against management are undertaken in the wake of poor performance, but directors owning large stakes successfully impede board restructuring.

Hence, there is a need to reduce managerial discretionary power via regulation. The most recent regulatory codes have been introduced in the form of auto-regulation.[1] The Cadbury (1992) Code, which the London Stock Exchange required all listed companies to follow from 30 June 1993, lays down standards of corporate governance and emphasizes the responsibilities of the board of directors, and more specifically the monitoring role of non-executive directors. The Code of Best Practice for top executive remuneration, worked out by the Greenbury Committee (1995), was a response to public criticism about directors receiving remuneration packages perceived as excessive.

The UK is also very different from Continental Europe in terms of the importance of institutional investors, which is much higher in the former. From 1963 to 1992, ownership of UK equities by institutional shareholders has soared from around 30 per cent to 60 per cent (Stapledon 1996). This compares with approximately 20 per cent of institutional ownership in Germany (Franks and Mayer 1995). Despite the fact that a large percentage of the aggregate UK market capitalization is held by institutions, these institutional investors are not major players from a principal-agent perspective. First, although their accumulated share stakes are significant, shareholdings in individual companies are small: the average of the largest shareholding owned by institutions amounts to a mere 5.5 per cent. Hence, the potential benefits from active monitoring of UK corporations can hardly outweigh the costs of corporate control for institutions and urges institutions to free ride on corporate control (Shleifer and Vishny 1997). Second, some investment and pension funds adhere to low-cost passive index strategies and consequently, do not dispose of the resources to actively monitor the large number of companies in their portfolios. In order to remain cost-efficient, institutional investors prefer to divest from poorly performing firms rather than to engage in active monitoring. A third reason for the low institutional involvement is insider-trading regulations. If companies do not want to immobilize part of their portfolios, they might have to restrict active involvement in corporate strategy. Plender (1997) reports that institutions do not frequently exercise their voting rights: only about 28 per cent of pension funds cast their votes on a regular basis, 21 per cent never vote and 32 per cent vote only on extraordinary items.

This chapter is organized in the following way. Section 2 discusses the different legal forms of incorporation. In section 3 the legislation on ownership disclosure and the main elements on investor protection are reviewed. Section 4 reports statistics on ownership of UK listed firms and analyses the importance of different investor categories. Section 5 focuses on the evolution of ownership concentration after the initial public offering (IPO). The findings are contrasted with the evolution of ownership in German IPOs. Section 6 discusses the lack of separation devices in the UK. Finally, section 7 concludes this chapter.

2. The corporate landscape

There are three types of classifications of companies in British commercial law:

- registered and unregistered companies,
- public and private companies, and
- limited and unlimited companies.

A registered company is founded by registering certain documents – most importantly the articles of association – with the Registrar of Companies, a public official. When a registered company is incorporated, it becomes a 'legal person'. Conversely, persons who conduct a business or a profession together, but have not chosen to set up an incorporated company, form a 'partnership' (Partnership Act of 1890). Public companies (PLCs) must be registered as such and their memorandum of association must state that they are a public company. Currently, their minimum required share capital at creation is £50,000. Public companies must also have at least two members whereas the EU Directive 89/667 permits the creation of private companies with only one member ('single member private limited company'). Only public companies can apply for a listing on the London Stock Exchange. About 1,900 companies are listed on the London Stock Exchange. If financial institutions, insurance companies, investment companies and real estate firms are excluded, the number of listed companies on the London Stock Exchange amounts to 1,450 industrial and commercial firms.

Registered companies can be of five different types:

- public companies limited by shares,
- private companies limited by shares,
- private companies limited by guarantee,
- private unlimited companies with share capital, and
- private unlimited companies without share capital.

The difference between limited and unlimited companies is, that in the case of liquidation, the members of the former are only liable to the amount of the share capital or guarantee[2] they have brought into the company, whereas the members of an unlimited company are liable to contribute to the debts and obligations of the company until these are entirely met.

3. Ownership legislation and investor protection regulation

3.1 History

The UK has a long tradition of disclosure regulations for shareholdings in companies. The first legislation on disclosure dates back to 1945, when the Cohen Committee recommended that the beneficial ownership of shares should be disclosed. Contrary to the EU Transparency Directive, UK legislation applies to all public companies, and not only to the listed ones. UK Company Law also imposes a threshold of three per cent[3] for stakes rather than the threshold of ten per cent as laid down in the Directive.

Every company has to keep a register of its members. Section 22 of the Companies Act of 1985 (hereafter CA 1985) defines the members of a company as all the persons who have subscribed to the memorandum of association and all other persons who agree to become a member. Every member's name and address as well as the date at which he became a member and the date at which he may have ceased to be one have to be entered into the register of members. If the company has a share capital, the number of shares each member owns and the amount paid in must be specified in the register.[4]

The register of shareholders does not necessarily reveal the true beneficial holdings as some 'nominee' companies may register the shares on behalf of a third party. A nominee company is used either to reduce administrative costs by an institutional investor who holds shares on behalf of many individual investors or to hide the true ownership. However, with regard to this last case, in practice, the company secretary in whose company a substantial stake is held, is aware of the identity of the true owner.

3.2 Implementation of the EU Transparency Directive into UK Company Law

A. Introduction

The EU Transparency Directive 88/627/EEC was transposed into UK law by the Disclosure of Interests in Shares (Amendment) Regulations of 1993 and the Disclosure of Interests in Shares (Amendment) (No 2) Regulations of 1993.[5] The Regulations apply to interests in shares in the 'relevant share capital' of a public company only. The relevant share capital is defined as the voting capital; i.e. the Regulations only refer to interests of shares that carry 'rights to vote in all circumstances at general meetings of the company'.[6]

B. Notification procedure

Rules applying to both listed and unlisted companies

A person[7] acquiring an equity stake of at least three per cent in a public company or ceasing to have such an equity stake must notify that company in writing within two days of the change. The notification must specify the share capital acquired and the number of shares. However, the notification does not have to specify whether the interest is beneficial[8] or not. Increases or decreases in the stake require a new notification, if they exceed one per cent.[9]

In response to any notification received, the company has to record in its share register (also called register of substantial shareholdings) the person's name, the information contained in the notification as well as the date of the recording. The change to the register has to be made within a period of three days following the day of receipt of the notification. A person who fails to make a notification of his interests is ‘guilty of an offence and liable to imprisonment or a fine, or both’. The competent authority is the Secretary of State or the Director of Public Prosecutions (section 73).

In the example displayed in Figure 1, the Guinness Peat Group acquires eight per cent of the share capital (and the voting rights) of Bluebird Toys. As the shares are held by different companies of the Group, a ‘nominee’ company is created which registers the nominal shares in its name to reduce administrative costs.

[Insert Figure 1 about here]

The members of the board of directors (both executive and non-executives) have to disclose their interests and changes herein regardless of the number of shares.[10] The disclosed information on ownership is kept in the register of directors’ interests and the register of substantial shareholdings, both of which are kept in the same place by the company secretary. The registers have to be accessible to any member of the company or any other person at no charge.[11] Both members and non-members[12] of the company have access to the register of substantial interests free of charge. Non-members, however, may be charged a fee of £2.50 per hour (or part of it) for the inspection of the register of directors’ interests. A person who requires copies of (part of) any of the two registers will be charged a fee.[13]

Rules applying to listed companies only

Listed companies immediately have to inform the Company Announcements Office (CAO) of the London Stock Exchange of any notifications of major interests received under sections 198 to 208 of the CA 1985. They have to specify the date of receipt of the notification and (if known) the date of the transaction.[14] Listed companies also have to inform the CAO of any notification received relating to directors’ interests. They must inform the CAO of the notification received as well as the date of the disclosure, the date and nature of the transaction, the price, amount and class of securities, the nature and extent of the director's interest in the transaction.

3.3 Disclosure Thresholds and Notification of Family and Corporate Interests

A person is required to disclose his interests in a public company, as soon as he owns a beneficial stake of three per cent of the nominal value of that class of capital or as soon as he controls a stake (whether beneficial or not) of 10 per cent of the voting capital. Beneficial interests are all interests other than those managed for other persons, those held by market makers in the course of their normal business, and those managed for unit trusts and recognized schemes (section 199 CA 1985).

By law, a person is automatically interested in the shares that his spouse and infant children or stepchildren hold ('family interest'). He is also interested in shares held by a company of which he controls or exercises at least one third of the voting rights at the general meeting or of which the directors are in the habit of following his instructions ('corporate interests').

3.4 Concert parties and voting agreements

The ownership disclosure notification does not only apply to individuals or companies (including their (wholly-owned) subsidiaries[15]), but also extends to individuals and companies with voting-right agreements. Such agreements between two or more persons give rise to the obligation of disclosure, if the target company is a public company and if the combined shareholdings amount to at least three per cent.[16] These voting agreements consist in obligations or restrictions between shareholders with respect to the use, retention or disposal of the share stakes involved.

3.5 Takeover and merger regulation

The City Code on Takeovers and Mergers, introduced in 1968, provides some protection to the minority shareholders of listed companies subject to takeovers. The Code is a set of self-regulatory rules issued and administered by the Panel on Takeovers and Mergers, which consists of representatives of the main City institutions such as the Stock Exchange. The Panel's chairman and deputy chairman are appointed by the Bank of England. The Code specifies that when a person holds at least 30 per cent of the voting rights of a company, she must make a formal takeover bid, the 'mandatory offer', for the entirety of the voting shares. The price of the mandatory offer has to be the highest price that the bidder paid for the target company's shares during the 12 months preceding the date when her stake reached 30 per cent. If the offer is accepted within four months by shareholders owning 90 per cent of the shares the offer relates to, the bidder has the right to acquire the remaining ten per cent.[17]

In the case of a rescue operation, the City Code can exempt a company from making a mandatory offer (Keenan 1996). Such an exception was granted to Olivetti when it acquired around 49.3 per cent of the Acorn Computer Group in 1985. Although Olivetti subsequently increased its holding to 79.8 per cent, Acorn remained listed on the USM, the secondary market.[18]

3.6 Minority shareholder protection

The UK is known for the high level of protection it provides to minority shareholders (Laporta *et al.* 1997). In the case of the UK, minority protection is derived from court rulings. The rule in *Foss v Harbottle*, 1843, stated that decisions in a company are taken by the majority of the shareholders and that individual shareholders cannot normally appeal against such decisions. However, there are exceptions to this rule. The exception that relates specifically to minority protection is the so-called 'fraud on the minority'. This exception covers what is typically known in agency theory as the expropriation of minority shareholders. The Court of Appeal ruled in *Menier v Hooper s Telegraph Works Ltd*, 1874, that the majority rule from *Foss v Harbottle* may not apply, if the majority of shareholders intend to make a profit at the disadvantage of the minority shareholders. A case for a claim can then be brought forward by a single minority shareholder.[19]

3.7 Cross shareholdings and share repurchases

Companies who intend to reduce their share capital must do so through a special resolution (Section 135 of CA 1985),[20] approved by a majority of the three-quarters of the shareholders voting in person or by proxy. In addition, listed companies must also conform to the rules governing share repurchases laid down in Chapter 15 of the Listing Rules. Repurchases have to be notified to the Company Announcements Office as soon as possible and no later than 8.30 on the morning following the calendar day of the transaction. Repurchases within a period of 12 months and covering less than 15 per cent of the equity can be made through the stock market, under the condition that the price paid for the shares does not exceed the average market price of shares during the 10 business days before the transaction by more than five per cent. Repurchases within a period of 12 months covering more than 15 per cent of the equity must be made via a tender offer to all shareholders. The tender offer must have a fixed price or a maximum price and has to be announced in at least two national newspapers at least seven days before its closing date.

4. Voting-right concentration in listed and unlisted companies.

4.1 Sample description

A sample of 250 companies was randomly selected from all the companies quoted on the London Stock Exchange, excluding financial institutions, real estate companies, and insurance companies. In order to study the ownership concentration across time and in particular around the decrease in the disclosure threshold from five to three per cent in 1989, data were collected for a five-year period starting in 1988. In the last three years of the sample period, about seven per cent of the companies in the sample were taken over and two per cent had their listing suspended, mostly due to receivership. As no reliable public databases covering this period could be found, we collected the data from the annual reports in hardcopy or microfiche format.[21]

The shareholdings are classified into eight different categories: (1) banks, (2) insurance companies, (3) investment trusts, unit trusts, and pension funds, (4) executive directors, (5) non-executive directors, (6) industrial and commercial companies, (7) families and individuals (other than directors or their relatives), (8) government stakes, and (9) real-estate companies. Directors' stakes consist of both beneficial and non-beneficial shares. For the cases where stakes were held by nominee companies, we identified the investors behind the nominee companies via information provided by the company secretaries. Shareholdings held through nominees were classified in function of the ownership category of the true owner.

Shareholders who own shares indirectly through subsidiaries are required to disclose their combined direct and indirect shareholdings. We consider such stakes as an ultimate voting block. Voting pacts between corporate shareholders are rarely mentioned in the disclosure statements, although individuals (usually family members) sometimes hold a share stake in common ownership.[22] The Companies Act requires large shareholders to disclose their voting rights, rather than the actual ownership percentage. However, as dual-class shares are rare, percentages of ownership (or of cash flow rights) and voting-right concentration are similar. Hence, concentration of voting-rights and concentration of ownership are used interchangeably in this section.

4.2 Total ownership concentration

Panel A of Table 1 shows the sum of all ultimate voting blocks held by directors and by all substantial shareholders, the latter being defined as owning total ultimate voting blocks of more than three per cent (five per cent for 1988 and 1989). The sample companies were subdivided into two sub-samples: (1) companies which were listed for more than five years on the London Stock Exchange, for simplicity called 'established firms', and (2) companies brought to the stock exchange during the last five years, hence called 'recent IPOs' (not shown in Table 1).[23] We use three different ratios of concentration: C_{All}, the sum of all the ultimate voting blocks held in the company, C_1, the largest ultimate voting block, and finally a Herfindahl index based upon the five largest blocks held.

[Insert Table 1 about here]

C_{All} in established companies amounts to around 30 per cent of the equity for the period 1988–9 and increases substantially as of 1990 to an average of over 40 per cent for the period 1990–3 as a consequence of reducing the disclosure threshold from five to three per cent. Panel A also reports that the average number of large shareholders – with stakes of five per cent or more and three per cent or more, respectively – was three during 1988–9 while about six shareholders disclosed large shareholdings of over three per cent in the period 1990–2. In recent IPOs (not shown), ownership concentration is substantially higher than in the established companies: 41.7 per cent versus 28.2 per cent in 1988 and 48.0 per cent versus 40.6 per cent in 1990.

Table 2 shows that for 1992 the exclusion of voluntarily disclosed ultimate voting blocks that fall below the compulsory threshold of three per cent causes only a marginal decrease in the concentration ratios. Furthermore, the levels for C_{All}, C_3, and C_5 are very close.

[Insert Table 2 about here]

4.3 The largest ultimate voting block

The largest ultimate voting block in established companies varies from 14.6 per cent to 16.5 per cent (Panel B of Table 1), whereas it is about five per cent higher in recent IPOs. The percentile plot in Figure 2 shows the fraction of the sample companies by size of their largest ultimate voting block for the year 1992. The fact that the percentiles are substantially below the quadrant intersection shows that the size distribution is not normal and that ownership is diffuse in most sample companies. Only in about 15 per cent of the sample companies does the largest block exceed the blocking minority threshold of 25 per cent. This is in sharp contrast with ownership concentration in Continental European countries: e.g. in Germany and Belgium the largest shareholder or shareholder group owns a stake of 25 per cent or more in 85 and 93 per cent respectively of listed companies (Franks and Mayer 1997; Renneboog 1997).

[Insert Figure 2 about here]

Figure 3 depicts the size distribution of the largest shareholder. The median largest owner holds about ten per cent. In 41 per cent of the sample companies does the largest shareholder own a stake of between five and ten per cent. Small peaks at the 25–30 per cent range and the 75–80 per cent range indicate the value of owning a blocking minority and super-majority respectively. However, in less than 15 per cent of the firms does the largest shareholder hold stakes in excess of 30 per cent, which is the mandatory bid threshold. Given the high dispersion of ownership, stakes of 15–20 per cent may already give a majority of the votes represented at the annual shareholder meetings.

Our data show that voting blocks exceeding 30 per cent are usually held by families or individuals, who are the founders or heirs to the founders of the firm. Out of a total of 200 sample companies in 1992, 18 companies have a shareholder controlling in excess of 30 per cent of the equity. Eleven of these 18 stakes are owned by founding families. In addition, in eight companies a shareholder holds just under 30 per cent (29.8-29.9%) of the votes. In all eight cases the shareholder is another company. This clearly shows that these corporate shareholders are willing to hold as large an equity stake without transgressing the 30 per cent threshold which would oblige them to undertake a takeover which is beyond their resources.

[Insert Figure 3 about here]

4.4 Major shareholders

Figure 4[24] shows that the largest shareholder owns an average ultimate voting block of 14.4 per cent (with a median of 9.9 per cent), whereas the second and third largest shareholders own average share stakes of 7.3 per cent and 6.0 per cent respectively. To challenge decisions of the largest shareholder, a voting agreement between the second and third largest shareholder is needed. In the average company, 7 shareholders own stakes of 3% or more. The fourth largest and the smaller shareholders hold, on average, 4.1% of the voting rights. Hence, whereas the dominant shareholder in Continental companies is usually unchallenged, absolute control would require the existence of a shareholder coalition in the average UK company. The average coalition of the three largest shareholders would own 27.7 per cent and the combined shareholdings of all large shareholdings are about 40 per cent. Panel C of Table 1 reports the Herfindahl indices, which measure ultimate voting block concentration across the largest five shareholders. Total concentration remains relatively stable over time and the relatively low values for the indices reflect that the share stakes are spread out over several shareholders.

[Insert Figure 4 about here]

Consequently, the main potential agency conflict encountered in Anglo-American companies is of a different type than the one encountered in Continental European firms. In the latter, expropriation of minority shareholders may be the most important problem related to ownership concentration in such a way that strict minority protection legislation is warranted. In contrast, lack of ownership concentration and control in Anglo-American companies necessitates codes restricting the management from taking decisions to the detriment of the shareholders.

4.5 The nature of ownership

Panel A of Table 3 reports the relative importance of nine categories of blockholders. The category with the largest ultimate voting blocks (of over three per cent) is that of institutional investors, more specifically investment and pension funds, who own a combined shareholding of over 21 per cent in the average company[25] and 19 per cent in recent IPOs.

[Insert Table 3 about here]

Directors are the second most important category with an aggregate stake of about 11 per cent in established companies and 22 per cent in recent IPOs. In companies which have been recently floated, the pre-IPO owner, usually a family, keeps on average half of the original shares, which is equivalent to about one third of the post-IPO outstanding share capital. In established companies 65 per cent of the average directors' shareholdings are held by executives, while in recent IPOs three quarters of the combined directors' holdings are controlled by executive directors. The category of industrial and commercial companies holds an average block of six per cent.

Panel B of Table 3 shows the average stake of the largest blockholder by type of owner.[26] The largest blocks are held by industrial companies with an average of 12.5 per cent. Panel C of Table 3 reveals that if the zero stakes are included (i.e. the average is calculated over all the companies in the sample), the power of industrial companies is much less pronounced.[27]

One of the most striking results in Table 3 is the relative power of directors. Combining the largest shareholdings of executive and non-executive directors yields a stake, which ranges from 9.5 per cent to 11.6 per cent over the different years (Panel B). The size of directors' shareholdings in a sample of recent IPOs is even twice as high. All in all, the entire board, and in particular the executive directors, who own about 70 per cent of all large directors' holdings, own substantial voting power. In addition, directors can solicit proxy votes from institutional investors. Plender (1997: 140) reports that 21 per cent of the votes by institutional shareholders are proxy votes exercised by the company's CEO at his discretion.

The largest blockholder class is that of investment and pension funds of which the largest ultimate block amounts to more than seven per cent (Panel B). Ultimate blocks held by insurance companies and banks are smaller at four per cent and 5.1 per cent, respectively (in 1992). Panel C reports that in 40.3 per cent of the sample companies, institutional shareholders own the largest shareholding, but Panel B suggests that these shareholdings in general do not exceed 15 per cent.[28]

Table 4 shows the institutional investors with the highest number of ultimate voting blocks in a sample of 250 companies in 1992 and each institution's average block. The five most frequently represented institutions consist of two insurance companies, Prudential Corporation Group and Scottish Amicable Life Insurance Society, who hold respectively 70 and 50 blocks (of at least three per cent), and of three investment funds, Philips & Drew, Schroder, and M&G with more than 30 share stakes in a total of 250 listed companies.

[Insert Table 4 about here]

4.6 Changes in shareholdings

Table 5 reports changes in the concentration of ultimate voting blocks over time and shows whether these changes are related to total voting block concentration. Both the annual increases and decreases are recorded over the period 1990–2 in order to avoid changes due to the decrease in the disclosure threshold in 1989. In addition, a distinction is made between increases in voting rights held by new shareholders, who did not own a substantial shareholding of at least three per cent in the preceding year, and those held by existing substantial shareholders. Table 5 records a total of 925 purchases of blocks, 85 per cent of which were made by new shareholders, and a total of 838 sales of at least three per cent over the whole sample period.[29] Ninety-eight blocks of a minimum of ten per cent were acquired and 80 were sold in a sample of 250 listed companies.

Consequently, there exists a market for share blocks in the UK, as in about 12 per cent of the sample companies substantial share stakes of ten per cent or more are acquired.

[Insert Table 5 about here]

Table 6 reveals that during the period 1990–2, investment funds and insurance companies actively traded substantial share blocks: in 48.7 per cent of all sample companies did investment funds and insurance companies sell stakes within the size bracket [3%, 25%], whereas in 50.5 per cent of the companies stakes of a similar size were purchased. Executive directors acquired major shareholdings in about ten per cent of the sample companies whereas they decreased their holdings in 11.4 per cent of the companies. Industrial companies traded large share blocks in about 12 per cent of the sample.

[Insert Table 6 about here]

4.7 Ownership concentration in unlisted companies

A sample of 12,600 unlisted companies was drawn from the Jordan's database (Amadeus Cd-Rom supplied by Bureau Van Dijk, Brussels) for the year 1996. In about 78 per cent of these unlisted companies, the entire share capital is held by a single shareholder. In the remainder of the sample, one shareholder holds a majority stake of 50 per cent (Figure 5).

[Insert Figure 5 about here]

5. Evolution of ownership

The previous section documented that the vast majority of non-listed UK companies have a high ownership concentration whereas most listed companies have a dispersed ownership structure. This raises the question as to how long it takes for a newly floated firm to reach a diffuse shareholding structure and reach the separation of ownership and control as defined by Berle and Means (1932). Two studies – the studies by Brennan and Franks (1997) and Goergen (1998) – address this question and analyse the evolution of ownership and control in UK firms from the moment of their flotation. Brennan and Franks find that for their sample of 69 IPOs seven years after going public on average two thirds of the equity is owned by new shareholders.

Goergen (Table 7) finds that UK firms reach low levels of ownership concentration more rapidly than their German counterparts. German IPOs, floated by individuals between 1981-88, were matched with UK IPOs of a similar size or industry, also floated by individuals. A third of the UK IPOs are taken over within six years of going public, a third become widely held and a third remain controlled by the family shareholder.[30] Five years subsequent to the IPO, the old shareholders of a German corporation still own a majority of the voting rights, while old shareholders in UK companies own less then one third of the equity. This study also reports that at the time of the IPO UK firms tend to be on average 14 years old whereas German firms are floated only about 50 years after their creation.

[Insert Table 7 about here]

6. Lack of separation devices

Although some devices to separate ownership and control – such as non-voting shares – are legally permitted in the UK, firms tend to avoid them for two reasons. First, their use has been discouraged by institutional shareholders as well as by officials from the London Stock Exchange. Second, the high dispersion of corporate ownership does not stimulate the creation of legal devices to separate ownership from control. In this section, we first discuss the type of legal separation devices that are available in the UK and the reasons why these devices are not normally used by companies. Second, we examine how the substantial power of company directors is further increased by the characteristics of the UK system of corporate governance.

6.1 Non-voting shares and restrictions on the transfer of shares

Although UK companies are legally entitled to issue non-voting shares, the issue of such shares is rare, especially for firms listed on the London Stock Exchange.[31] Brennan and Franks (1997) state that '[…] investing institutions and the London Stock Exchange have discouraged the issuance of non-voting shares and other devices for discriminating against different shareholders'. Also, the majority of the few companies that had still non-voting shares – such as Boots, Great Universal Stores, and Whitbread – cancelled them at the beginning of the 1990s. As the London Stock Exchange does not allow any restrictions on the transfer of shares, such restrictions can only be found in the articles of unlisted companies, especially private companies (Keenan 1996).

6.2 Proxy voting

The board of directors often sends proxy forms to the shareholders. The Listing Rules require that proxy forms 'provide for two-way voting on all resolutions intended to be proposed […]', i.e. shareholders must always be offered the choice to vote for or against any resolution. However, shareholders are free to appoint their own proxy, and are not required to use the proxy form provided by the board of directors.[32] If a shareholder does not specify how the proxy should vote on the different issues, the proxy will be free to vote how he pleases.

Proxy voting in the UK differs from proxy voting in Germany. In Germany, proxy votes are normally exercised by the bank, with which a shareholder deposits his shares. If the shareholder does not express his voting intentions, the bank is free to vote as it pleases. Conversely, in the UK, proxy votes are normally exercised by company directors and hence confer them with additional power. Davies and Prentice (1997: 580) argue that the provision of two-way voting does not prevent this increase in the power of directors:

It cannot be said, however, that these provisions have done much to curtail the tactical advantages possessed by the directors. They still strike the first blow and their solicitation of proxy votes is likely to meet with a substantial response before the opposition is able to get under way. Even if their proxies are in the "two-way" form, many members will complete and lodge them after hearing but one side of the case, and only the most intelligent or obstinate are likely to withstand the impact of the, as yet, uncontradicted assertions of the directors. It is, of course, true that once opposition is aroused members may be persuaded to cancel their proxies, for these are merely appointments of agents and the agents' authority can be withdrawn either expressly or by personal attendance and voting. But in practice this rarely happens.

6.3 Voting at shareholders meetings

The way voting at shareholders' meetings is carried out can further enhance the directors' power over the shareholders. Unless a resolution is controversial, voting is normally done by show of hands only. Consequently, each shareholder has only one vote whatever the size of his stake in the firm's equity. Proxy votes are excluded from this vote by hand, unless the articles of association state otherwise. The chairman has complete discretion to decide whether an item on the agenda is controversial or not. If an item is controversial, a poll can be taken, even before a vote by hand has been held. In a poll, shareholders will have as many votes as their shares confer and proxy voting is allowed.

The voting procedure at AGMs, i.e. the showing of hands, is probably one of the weaknesses of the British system of corporate governance. Minority shareholders typically do not attend the AGM and proxy voting is only allowed in a poll. As British company directors normally hold shares in their firms, they will be voting by show of hands along with other shareholders attending the AGM and can therefore decide on corporate issues in their proper interest.

6.4 One-tier board structure

Contrary to German public companies (*Aktiengesellschaften*), UK public companies do not have a two-tier board structure. Both executive and non-executive directors sit on the same board and the chairman of the board can be an executive director.[33] One of the main recommendations of the Cadbury (1992) report is to increase the independence of the non-executive directors vis-à-vis the executive directors. To this end, the report recommends an increase in the proportion of non-executive directors and the separation of the roles of the chairman and the chief executive. Stapledon (1996) shows that the proportion of non-executive directors in quoted industrial companies has been increasing from 30 per cent in 1979 to 44 per cent in 1993. Franks, Mayer and Renneboog (1998) confirm that executive directors still outnumber non-executive directors in listed industrial companies (60% versus 40%). Although the proportion of listed firms with separate chairmen and chief executives increased substantially, 23 per cent of firms still do not separate the two roles. These firms may suffer from a serious lack of monitoring of their board of directors. Franks, Mayer and Renneboog (1998) report that corporate restructuring triggered by poor corporate performance usually leads to a strengthening of the independence of the non-executive directors from management.

The Hampel Committee – chaired by Sir Ronald Hampel, the chairman of ICI – was set up at the end of 1995 as the successor to the Cadbury Committee. The Hampel Committee has raised the issue of whether the UK should move towards a system with a two-tier board structure. The Committee is also considering whether institutional investors should be obliged to vote at shareholders' meetings as it is already the case in the USA. Unfortunately, the Committee seems to favour a non-interventionist approach rather than the laying-down of compulsory rules.

6.5 The market for corporate control

Theoreticians argue that badly-performing managers will eventually be disciplined by the market for corporate control (see e.g. Manne 1965). If a company performs badly, then it should be worthwhile for an investor to take control over the company and increase shareholder value by substituting the management. Along with the US, the UK is one of the few countries with an active market for corporate control. Franks, Mayer and Renneboog (1998) report that on average every year four per cent of the listed UK companies are taken over. Franks and Mayer (1996) argue that there was a total of 80 hostile takeover bids during 1985–6. This compares with only three hostile takeovers in Germany after WWII.

However, two recent empirical studies by Franks and Mayer (1996) on the UK and Comment and Schwert (1997) on the US have questioned the disciplining role of takeovers. The studies agree that the pre-takeover performance of targets of hostile bids is not significantly different from the one of targets of friendly bids or the one of non-merging firms. This suggests that the main disciplining device of badly performing managers does not work efficiently and that managers are in general free to do whatever they choose to do.

7. Conclusion

The ownership structure of listed companies in the UK is very different from the one of Continental European listed firms. The first striking feature is that ownership of the average company is diffuse: a coalition of at least eight shareholders is required to reach an absolute majority of voting rights. Even though the average firm has a dispersed ownership, the reader should bear in mind that there are about ten per cent of firms where the founder or his heirs are holding more than 30 per cent. The ownership structure is also shaped by regulation; the mandatory takeover threshold of 30%, for example, has an important impact on the ownership structure. In about 4% of sample companies, corporate shareholders hold just under 30 per cent of the shares. Second, institutional investors are the most important category of shareholders. However, they tend to follow passive strategies and often do not exercise the votes attached to their shares. Third, the passive stance adopted by institutions increases the already significant power of directors, who are the second most important category of shareholders. Franks, Mayer and Renneboog (1998) show that when directors own substantial shareholdings, they use their voting power to entrench their positions and they can impede monitoring actions taken by other shareholders to restructure the board, even in the wake of poor corporate performance. Fourth, there is an important market for share stakes and share stakes do not tend to be dispersed. Fifth, some of the characteristics of the British system of corporate governance, such as the proxy voting and the one-tier board structure, further strengthen the discretionary power of directors. Therefore, the main agency conflict emerging from the diffuse ownership structure is the potential expropriation of shareholders by the management.

Corporate governance mechanisms such as hostile takeovers (Franks and Mayer 1996) and the market for share stakes (Franks, Mayer and Renneboog 1998) do not seem to operate well in the UK. Consequently, it seems to be clear that a larger proportion of independent non-executive directors or a separate supervisory committee are required to curb the potential agency conflicts between a company's management and its shareholders. Remuneration plans linking managerial compensation directly to performance will also result in a better alignment of managerial and shareholder goals. A stricter legal definition of the fiduciary duty of directors will allow courts to rule more efficiently on directors' responsibilities. The Cadbury (1992) Committee, the Greenbury (1995) Committee and, currently the Hampel Committee have proposed codes of corporate governance and remuneration. The establishment of an independent regulatory body advising the pay-for-performance issue, controlling board composition, governing minority protection will ensure a limit to the potential UK agency conflicts.

Endnotes

[1] One of the distinctive features of the UK capital market is its self-regulatory character. Both the City and the London Stock Exchange are subject to auto-regulation (see Franks *et al.*, 1997).

[2] The difference between a share capital and a guarantee is that at least part of the former has to be paid up before winding up the company. The guarantee is only due at liquidation if the liquidation value is lower than the guaranteed capital. Since 1980, only private companies can be created by guarantee.

[3] The threshold was five per cent from 1985 until 1989.

[4] Although not all shareholders may be members of the company, in practice, membership of a company is in most cases equal to owning a shareholding. In the remainder of the paper, we will use shareholder instead of member.

[5] The Regulations were published in issues no. 1993/1819 and no. 1993/2689 respectively of Statutory Instruments. They were made on 20 July 1993 and came into force on 18 September 1993. The Regulations are an amendment to Part VI - the part on the Disclosure of Interests in Shares - of the Companies Act 1985 (as well as to section 210A which was added to the Companies Act 1985 through section 134 of the Companies Act 1989).

[6] The relevant share capital also includes voting shares whose voting rights have been temporarily suspended.

[7] In the following sections of this chapter, we will be using the term ‘person’ as it is used in UK Company Law. This term as well as the pronouns ‘he’ and ‘him’ do not only refer to ‘individuals’, but also to ‘body corporates’ (companies). See Mayson, French and Ryan (1996), section 0.1.9 ‘A note on terminology’ for more detail. Legal texts use the term ‘individual’, if corporations are to be excluded.

[8] Company Law uses the term ‘material’ rather than ‘beneficial’. Beneficial refers to the fact that the person enjoys all the proprietary rights. In the case of a listed bearer shares with voting rights, the main rights are: voting at the general assembly, receiving dividends and the right to dispose of the shares. Non-beneficial shares are held by a trustee, usually for a family, charity or corporation who will receive dividends.

[9] If a person’s interest drops below the three per cent threshold, he must notify the company. Any subsequent decreases do not require a notification.

[10] See section 324 of the CA 1985. If a director has also an interest in his company that exceeds the thresholds laid down in section 199 for substantial shareholdings, he will have to make two distinct notifications.

[11] According to section 234 of the CA 1985, the directors of a company have the obligation to prepare for each financial year the directors' report, which specifies changes in directors' and others' interests as well as the acquisition of its own shares by the company. The directors' report is released along with the company accounts to (section 238): 'every member of the company, every holder of the company's debentures, and every person who is entitled to receive notice of general meetings'.

[12] In companies which issued shares, these are respectively shareholders and non-shareholders.

[13] If a person requires copies of (part of) the registers, the company has to send the copies to the person within a period of ten days following the day of the request subject to an administrative charge. If a company refuses to satisfy such a request or does not satisfy the request within the period of ten days, the company and any of its officers are liable to a fine on a daily basis. If the company refuses to satisfy a request, 'the court may by order compel an immediate inspection of it; and in the case of failure to send a copy required [...], the court may by order direct that the copy required shall be sent to the person requiring it'. The fee payable for copies of the register of interests in shares and the register of directors' interests is specified in the Companies (Inspection and Copying of Registers, Indices and Documents) Regulations 1991 and is: £2.50 for the first 100 entries (or part of them), £20.00 for the following 1000 entries (or part of them) and £15.00 for each additional 1000 entries (or part of them).

[14] Under section 212 of the CA 1985, a public company can request a person (individual or company) it knows or suspects to be interested in its voting share capital to declare whether or not it is the case. The company may also be asked by its members representing at least ten per cent of the paid-up voting capital (on the date of the

request) to launch such a request under section 212 of the CA 1985. If the company does not comply with the request by its members, the company as well as its officers who are in default will be liable to a fine.

[15] The Companies Act of 1989 (hereafter CA 1989) lays down the definitions of a parent company, a wholly-owned subsidiary, a holding company and a subsidiary. A wholly-owned subsidiary is a company that does not have any members apart from the parent company, the parent company's wholly owned subsidiaries or persons acting on behalf of the parent company or any of its wholly-owned subsidiaries. A company is a subsidiary of another company, the holding company, if the latter holds the majority of the voting rights, is a member of it and appoints a majority of the directors, or is a member of it and controls the majority of the votes in accordance with an agreement with the other members or shareholders. Parent companies are required to publish consolidated accounts.

[16] See section 204 of the CA 1985. Birds *et al.* (1995) argue that 'section 204 is the statutory equivalent of the City Code rules in respect of 'concert parties' in the context of a takeover bid'. The City Code will be discussed in detail in section 3.5.

[17] See Part XIIIA of the CA 1985.

[18] The USM (Unlisted Securities Market) required companies to have at least 10 per cent of their listed class of shares widely held. The proportion is 25 per cent for the Official List.

[19] Keenan (1996) provides a good discussion of the principles governing minority protection.

[20] Additional details on creditor protection, reduction of share capital below the authorized minimum, etc. can be found in Part V, Chapter IV of the CA 1985.

[21] The London Stock Exchange (LSE) covers the changes in an on-line Regulatory News Service but does not store any information. These LSE data are collected and stored by Extel Financial, which cannot make data accessible electronically but publishes a Weekly Official Intelligence Report. Copies of the hardcopy notifications have been available since 1992 at substantial cost (for this information £15,000 is charged). The Jordan's database on ownership can provide a one-year snapshot as old data are overwritten. Backup copies of

historical data are not available. For current ownership, we used Jordan's database which contains information on 1,580 listed companies. However, the analysis of these data did not yield results compatible with the more detailed analysis of the random sample. Closer analysis revealed that this database might contain many misclassified companies and we therefore did not consider this database to be suitable for this study. All in all, databases providing a good overview of shareholdings and reliable historical databases are not available for our sample period. Newspaper coverage (e.g. through the Financial Times) of substantial shareholdings or directors' holdings is far from comprehensive and cannot be used for research purposes.

[22] Data on voting rights pacts are not available in annual reports over the sample period and there is only sporadic newspaper coverage of voting pacts.

[23] For instance, for the year 1990, the recent IPO sample consists of 30 companies which were introduced on the stock exchange after 1985. The sample size of recent IPOs decreases from year to year as companies which were floated in 1983 are still in the IPO sub-sample until the year 1988, but are put in the sample of established companies as of 1989. In addition, some companies are taken over, go into receivership or have missing data.

[24] For all companies the shareholdings of three per cent or more are collected for all shareholders, apart from those held by directors for whom all shareholdings were obtained. However, in this figure only blocks of at least three per cent are taken into account.

[25] The substantial change from 10.6 per cent in 1989 to 19.5 per cent in 1990 is due to the fact that on average two additional institutional investors start disclosing their shareholdings as the threshold has been reduced to three per cent in this period.

[26] For each category of owner, the largest share stake was recorded (if available). The number of largest shareholdings by category is used as denominator.

[27] Table A2 (appendix) shows the size distribution of the aggregate ultimate voting blocks and the largest block by type of owner for the whole sample period 1988-92.

[28] In panel C of Table 3, the average of largest voting blocks by class of owner is divided, not by the total number of largest shareholdings by class as in panel B but by the number of sample companies. As pension funds own share stakes in almost all listed companies of our sample, the average largest shareholding does not differ much from the one in panel B and amounts to about seven per cent. Both executive directors and industrial companies have largest shareholdings with an average of more than five per cent.

[29] These numbers are an underestimation of the true changes in blocks: the table does not record purchases which take place during the year and are sold off before the end of the fiscal year.

[30] A company is controlled by its family shareholder, if the later owns the largest stake in the company and the stake exceeds at least 25 per cent of the voting equity.

[31] The Listing Rules (Chapter 13) do not prohibit the issue of non-voting shares and restricted voting shares. However, such shares must be clearly marked.

[32] Section 372 of CA 1985 specifies that any shareholder, entitled to vote at a meeting, can appoint a proxy of his choice.

[33] Stapledon (1996, pp.144-145) distinguishes three different cases: (1) the chairman and the chief executive officer are the same person; (2) the chairman is an executive and there is a separate chief executive; (3) the chairman is a former executive director of the company.

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Table 1. Concentration ratios for ultimate voting blocks

Panel A. C_{all} : Sum of all voting blocks

Year	Sample size	Mean %	Minimum %	Quartile 25%	Median %	Quartile 75%	Maximum %	Avg. number of shareholders
1988	200	28.2	0.0	5.6	23.6	45.1	90.4	3.1
1989	208	30.2	0.0	9.8	25.7	48.4	86.5	3.4
1990	220	40.6	0.0	21.4	39.1	58.2	96.6	5.7
1991	227	42.9	0.0	24.9	42.3	60.5	99.2	6.3
1992	200	40.8	0.0	26.7	39.0	53.7	98.2	6.2

Panel B. C_1 : Largest voting block

Year	Sample size	Mean %	Minimum %	Quartile 25%	Median %	Quartile 75%	Maximum %
1988	200	14.6	0.0	4.9	10.6	22.8	86.5
1989	208	15.3	0.0	5.9	11.6	22.9	86.5
1990	220	16.5	0.0	7.2	12.1	23.7	86.4
1991	227	15.8	0.0	7.6	11.8	20.4	79.2
1992	200	15.2	0.0	7.0	10.9	19.6	78.9

Panel C. Herfindahl index measuring the concentration of the largest 5 ultimate outside voting blocks

Year	Sample size	Mean %	Minimum %	Quartile 25%	Median %	Quartile 75%	Maximum %
1988	200	10.4	0.0	2.3	6.6	12.3	38.7
1989	208	10.7	0.0	3.3	7.0	12.5	38.7
1990	220	11.2	0.0	5.2	7.5	12.5	38.6
1991	227	10.9	0.0	5.3	7.6	12.0	35.4
1992	200	10.5	0.0	5.2	7.2	11.2	35.3

Notes: This table shows the mean, median and quartiles of the aggregate of all substantial shareholdings of at least 5% (1988–9) or 3% (1990–2). Panel B shows the average and median largest shareholding while Panel C reports the Herfindahl index of the largest 5 shareholders. The Herfindahl index is defined as the square root of 1/5 of the sum of squares of the largest 5 shareholders. Established companies are defined as companies introduced to the London Stock Exchange at least 5 years prior.
Source: Own calculations based on annual reports.

Table 2. Concentration ratios for ultimate voting blocks for 1992 (excluding stakes below 3%)

Measure	Mean	Std.Dev.	Min.	Max.
C_1 : Largest blocks	14.44	12.59	3.40	78.90
C_3 : 3 largest blocks	26.84	15.23	3.70	78.90
C_5 : 5 largest blocks	32.99	16.35	3.70	84.68
C_{all} : all voting blocks	37.25	18.65	3.70	96.31

Table 3. Ultimate voting blocks by blockholder type

Year	1988	1989	1990	1991	1992
Sample Size	200	208	220	227	200
Panel A. Sum of ultimate voting blocks by blockholder type (%)					
Banks	0.1	0.4	1.2	1.8	1.9
Insurance firms	2.8	2.9	5.4	5.8	5.9
Investment/Pension funds	6.4	7.3	12.9	14.2	14.2
Total Institutions	9.3	10.6	19.5	21.8	22.0
Executive directors	7.3	7.7	7.9	7.4	5.8
Non-executive directors	3.8	3.8	4.5	4.6	4.1
Total directors	11.1	11.5	12.4	12.0	9.9
Industrial companies	5.7	6.0	6.2	5.8	6.1
Families and individuals	1.8	2.0	2.4	3.2	2.5
Government	0.3	0.1	0.1	0.1	0.2
Real Estate	0.0	0.0	0.0	0.0	0.1
Sum of blocks	28.2	30.2	40.6	42.9	40.8
Panel B. Average ultimate voting block of the largest blockholder (%)					
(the denominator excludes companies with no reported shareholdings for the shareholder category)					
Banks	6.0	7.6	4.5	4.5	5.1
Insurance firms	5.3	5.4	3.6	3.8	4.0
Investment/Pension funds	8.1	7.4	6.8	7.0	7.0
Executive directors	5.3	5.4	5.8	5.5	4.5
Non-executive directors	6.3	5.9	5.5	5.7	5.0
Industrial companies	14.9	14.5	12.0	10.6	10.6
Families and individuals	5.8	6.3	5.3	4.9	5.2
Government	13.3	6.9	5.5	5.7	6.7
Real Estate	0.0	0.0	0.0	0.0	0.1

Panel C. Average ultimate voting block of the largest blockholder (%)					
(the denominator includes companies with no reported shareholdings for the shareholder category)					
Banks	0.1	0.4	1.0	1.6	1.8
Insurance firms	2.2	2.3	3.6	3.8	4.0
Investment/Pension funds	4.6	5.1	6.8	7.0	7.0
Executive directors	5.3	5.4	5.8	5.5	4.1
Non-executive directors	3.1	3.0	3.4	3.4	2.9
Industrial companies	5.0	5.1	5.5	5.1	5.4
Families and individuals	1.3	1.4	1.6	2.0	1.6
Government	0.2	0.1	0.1	0.1	0.2
Real Estate	0.0	0.0	0.0	0.0	0.1
Panel D. Number of ultimate voting blocks by blockholder type					
Banks	2	11	49	80	71
Insurance firms	83	89	218	259	226
Investment/Pension funds	114	144	435	514	474
Executive directors	215	235	249	240	184
Non-executive directors	98	105	137	135	117
Industrial companies	67	73	101	109	102
Families and individuals	45	46	67	92	61
Government	3	3	4	4	6
Real Estate	0	0	0	0	1

Notes: This table shows, by category of owner, the aggregate ultimate voting blocks (panel A), the average largest ultimate voting block with as denominator (i) the total number of largest ultimate voting blocks by type of holder (panel B) and (ii) the total number of sample companies (panel C), and the number of blockholders (panel D). Blocks below 3% are excluded from this table.

(1) : The averages of panel B are calculated with a denominator which excludes the companies with no reported shareholdings of the specified shareholder category. (2) : The averages of panel C are calculated with a denominator which includes the companies with no reported shareholdings of the specified shareholder category.

Source: Own calculations based on annual reports.

Table 4. Main institutional investors in a random sample of 250 listed companies in 1992

Institutional investors	Number of ultimate voting blocks	Average ultimate voting block (%)
Prudential Corporation Group	70	5.5
Scottish Amicable Life Insurance Society	50	6.2
Philips & Drew Fund Management	41	4.7
Schroder Investment Management	36	5.7
M&G Investment Management	31	8.6
Barclays Bank	29	4.4
Brittanic Insurance	25	5.6
Guardian Royal Exchange	25	6.0
Norwich Union Life Assurance	24	4.1
Prudential Portfolio Managers	18	4.6
Robert Fleming Holdings	15	5.2
TSB Group	15	4.9
Morgan Grenfell Group	13	4.0
Postel Investment Management	13	4.7
3i Group	12	8.1
Framlington Group	12	5.1
Standard Life Assurance	11	3.8
AMP Asset Management	10	4.3
Sun Alliance	10	4.8
Confederation Life group	9	5.3
Scottish Widows Fund and Life Assurance	9	3.2
Fidelity Investment	8	5.8
Imperial Group Pension Investments	8	4.7
Pearl Assurance	8	4.3
Royal Insurance	6	3.4
TR Smaller Companies Investment Trust	6	6.5
Edinburgh Fund Managers	5	5.8
Equitable Life Assurance	5	4.0
Abberforth Partners	5	5.6
Henderson Administration Group	5	4.0
Invesco MIM	5	3.2
Provident Mutual Life Assurance	4	7.1

Source: annual reports

Table 5. Number of new large ultimate voting blocks and number of changes in existing ultimate voting blocks by ownership concentration in 1990 2

Size of change	[3%,5%[	[5%,10%[	[10%,15%[	[15%,25%[	[25%,50%[	>50%
Panel A. Number of firms with new shareholdings by size of change and by total ownership concentration						
Total ownership concentration						
<15%	67	20	7	1	2	0
[15%,25%[	63	25	5	3	1	0
[25%,35%[	106	41	8	3	2	0
[35%,50%[	143	60	9	4	3	0
>50%	134	75	19	11	4	0
Panel B. Number of firms with increases in existing shareholdings by size and ownership concentration.						
Total ownership concentration						
<15%	1	1	0	2	0	0
[15%,25%[	4	3	1	1	1	0
[25%,35%[	9	7	1	0	0	0
[35%,50%[	18	6	5	0	2	0
>50%	26	18	2	1	0	0
Panel C . Number of firms with decreases in existing shareholdings by size and ownership concentration.						
Total ownership concentration						
<15%	33	12	1	0	0	0
[15%,25%[	53	14	2	2	0	0
[25%,35%[	97	45	6	4	0	0
[35%,50%[	184	76	12	8	3	0
>50%	151	93	17	16	7	2

Notes: This table reports the number of changes in shareholdings by size for different total shareholding concentrations over the period 1990–2. Panel A reports the number of large new shareholdings by size class; panel B and C reflect the number of increases and decreases in substantial shareholdings by size and ownership concentration. The total sample consists of 250 companies.
Source: Own calculations based on data from annual reports

Table 6. Number of changes of ownership by blockholder type

Panel A. Number and percentage of sample firms with sales of ultimate voting blocks

	[3%,5%[		[5%,25%[		[25%,50%[		>=50%	
Banks	60	8.0%	21	2.8%	0	0.0%	0	0.0%
Insurance firms	152	20.3%	45	6.0%	0	0.0%	0	0.0%
Investment funds	213	28.4%	123	16.4%	1	0.1%	0	0.0%
Executive directors	25	3.3%	31	4.1%	4	0.5%	0	0.0%
Non-exec. directors	12	1.6%	18	2.4%	2	0.3%	0	0.0%
Industrial firms	32	4.3%	48	6.4%	3	0.4%	2	0.3%
Families and individuals	24	3.2%	22	2.9%	0	0.0%	0	0.0%

Panel B. Number and percentage of sample firms with purchases of ultimate voting blocks

	[3%,5%[		[5%,25%[		[25%,50%[		>=50%	
Banks	55	7.3%	23	3.1%	0	0.0%	0	0.0%
Insurance firms	148	19.7%	43	5.7%	0	0.0%	0	0.0%
Investment funds	231	30.8%	178	23.7%	1	0.1%	0	0.0%
Executive directors	32	4.3%	15	2.0%	1	0.1%	0	0.0%
Non-exec. directors	16	2.1%	11	1.5%	2	0.3%	0	0.0%
Industrial firms	46	6.1%	45	6.0%	9	1.2%	0	0.0%
Families and individuals	43	5.7%	24	3.2%	2	0.3%	0	0.0%

Notes: This table shows the number of sample companies with sales and purchases of substantial shareholdings over the period 1990–2 (after the decrease in disclosure threshold). The sample consists of 250 listed companies. The numbers of sample companies are cumulative over 3 years. The columns with percentages indicate the percentage of sample companies with a change in share stake owned by a particular class. Panel A shows decreases in share stakes and panel B shows the increases.
Source: Annual reports

Table 7. Average proportion of voting rights held by the old and new shareholders in 55 German and UK IPOs matched by market capitalisation

Time after IPO	Country	Old shareholders	New shareholders	Undisclosed hands
Imme-diately	Germany	76.4%*	1.5%***	22.2%*
	UK	62.8%	0.1%	37.2%
		(55,3.292,55)	(55,1.874,55)	(55,-3.797,55)
1 year	Germany	73.7%*	2.4%	24.0%*
	UK	51.4%	5.5%	43.1%
		(55,4.666,54)	(55,-1.452,54)	(55,-4.615,54)
2 years	Germany	69.6%*	5.4%**	25.0%*
	UK	47.3%	13.3%	39.5%
		(54,4.288,53)	(54,-2.513,53)	(54,-3.435,53)
3 years	Germany	64.9%*	9.8%*	25.3%**
	UK	37.7%	26.4%	36.0%
		(49,4.490,48)	(49,-2.825,48)	(49,-2.267,48)
4 years	Germany	59.4%*	15.5%**	25.0%**
	UK	33.6%	28.8%	37.6%
		(42,3.919,41)	(42,-2.019,41)	(42,-2.508,41)
5 years	Germany	50.7%*	23.1%	26.3%**
	UK	31.4%	32.1%	36.5%
		(37,2.705,36)	(37,-1.176,36)	(37,-2.001,36)
6 years	Germany	45.0%**	30.2%	24.8%*
	UK	30.0%	29.2%	40.8%
		(33,2.009,32)	(33,0.125,32)	(33,-2.813,32)

Notes:

(a) German sample size, t-statistic for the difference in means and UK sample size in parentheses.

(b) The samples are balanced samples, i.e. if one firm drops out of one sample, the matching firm from the other country is withdrawn.

(c) * Indicates that the difference in means is significantly different from zero at the one per cent level for the two-tailed test. ** Indicates that the difference in means is significantly different from zero at the five per cent level for the two-tailed test. *** Indicates that the difference in means is significantly different from zero at the ten per cent level for the two-tailed test.

Source: Goergen (1998)

Figure 1. Disclosure of ultimate voting block

LETTER TO BLUEBIRD TOYS PLC FROM GUINNESS PEAT GROUP

:: Disclosure of Interest in Shares Pursuant to Sections 198 to 202 of The Companies Act 1985

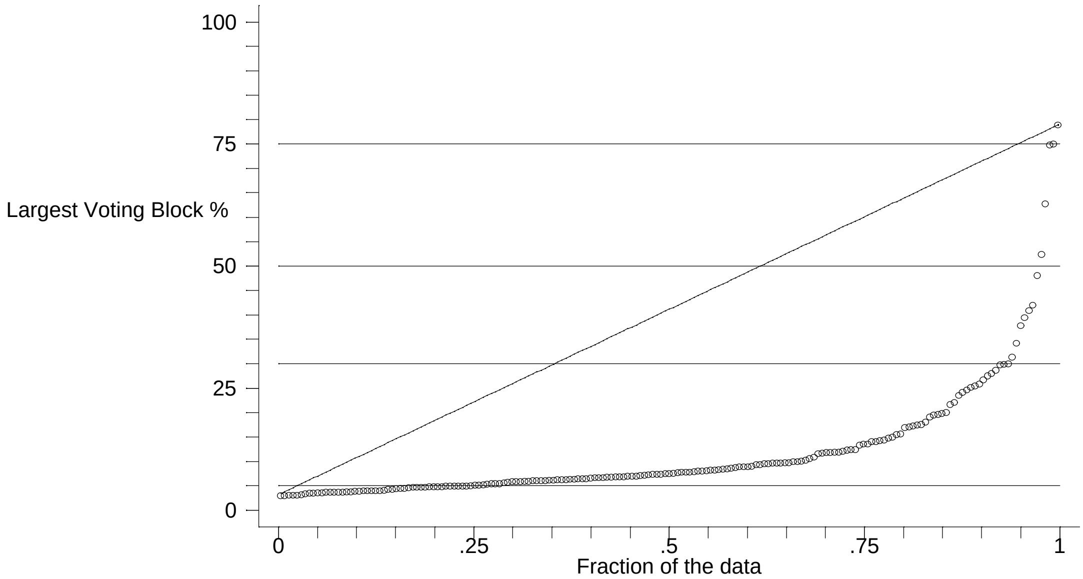
Guinness Peat Group plc and its subsidiary companies ("the Group") hereby notify Bluebird Toys Plc ("Bluebird") that following the market purchase of 660,000 Ordinary shares on 23 July 1997 at the price of 91p, the Group's interest in the shares of Bluebird amounts to 3,327,000 shares representing 8.00% of the issued share capital.

The additional shares will be presented for registration in the name of Sutherland Nominees Limited.

So far as the Group is aware, no person intersted in the shares is party to any agreement or arrangement relating to the exercise of any rights conferred by holding the shares subject to this notification.

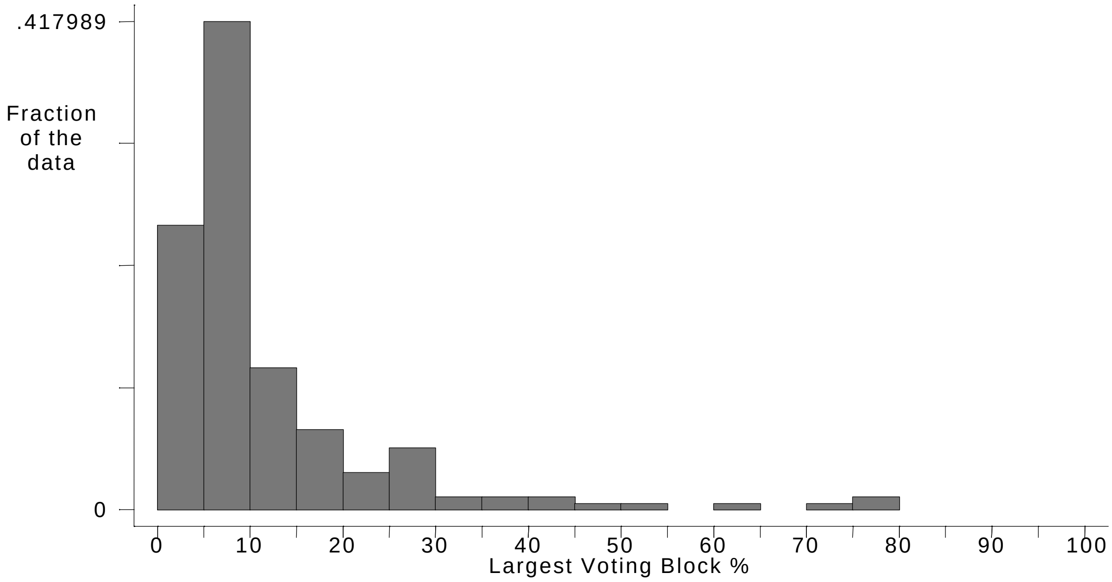
From Guinness Peat Group plc

Figure 2. Percentile Plot of Largest Voting Blocks in UK Listed Firms



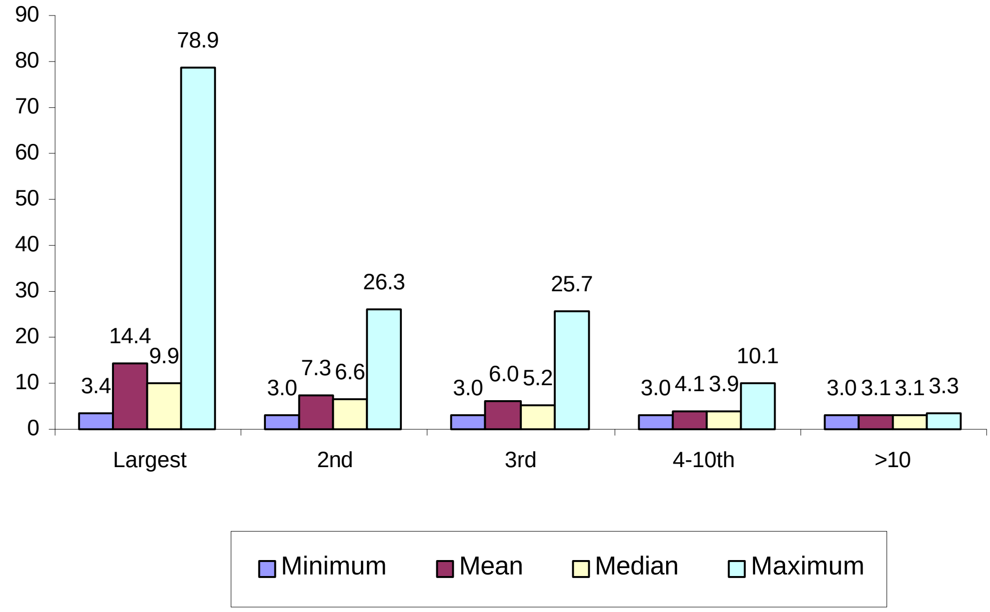
Source: Annual reports for a sample of 250 randomly selected companies

Figure 3. Histogram of Largest Voting Block in UK Listed Companies



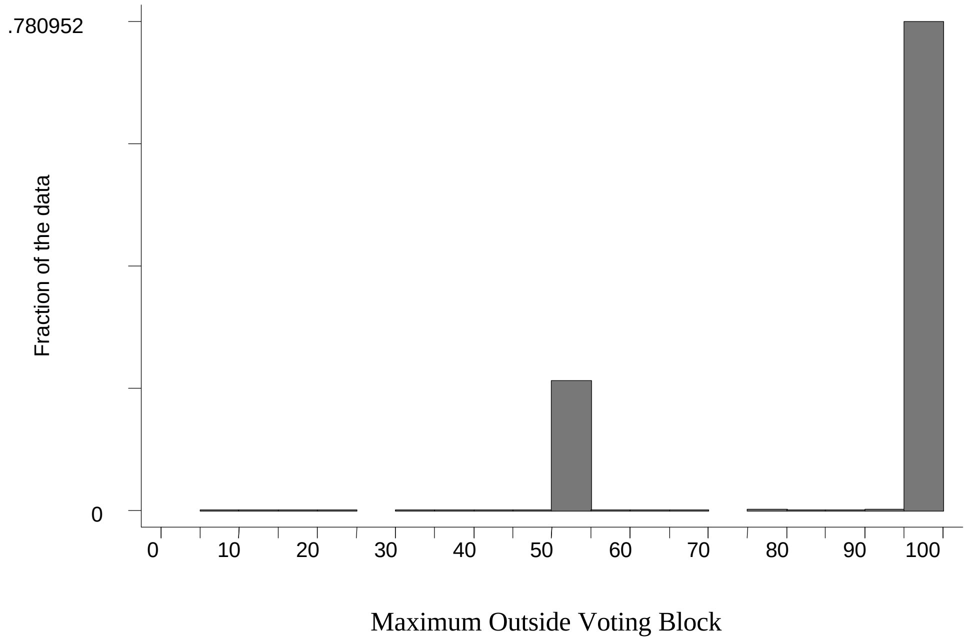
Source: Annual reports for a sample of 250 randomly selected companies.

Figure 4. Ultimate Voting Blocks by Rank for 1992



Notes: Blocks below 3% are excluded.

Figure 5. Histogram of Largest Ultimate Voting Block in Unlisted Companies in 1996



Source: Jordan's Database on Share Ownership 1996

Appendix

Table A1. Types of company

	Limited liability	Minimum capital	Minimum number of members	Register of members	Register of substantial shareholders	Register of directors' interests	Transfer of shares
Public company							
Limited by shares	Yes	£50,000 (only ¼ needs to be paid-up)	2	Yes	Yes	Yes	no restrictions allowed if listed company
Private company							
Limited by shares[a]	Yes	No	1	Yes	No	Yes	articles can impose restrictions
Limited by guarantee[a]	Yes	No, guarantee payable only when company is wound up	1	Yes	No	Yes	NA
Unlimited with share capital	No	No	2	Yes	No	Yes	articles can impose restrictions
Unlimited without share capital	No	No	2	Yes	No	Yes	NA
Limited by guarantee with share capital[b]	Yes	No	2	Yes	No	Yes	articles can impose

restrictions

[a] The Companies (Single Member Private Limited Companies) Regulations 1992 reduced the minimum number of members from 2 to 1.

[b] This type of company, also called ‘hybrid company’, could only be registered until 22 December 1980.

Appendix A2

Table A2. Size distribution of the aggregate and largest ultimate voting block by type of blockholder

Panel A. Aggregate ultimate voting blocks by type of owner 1988 92

	Total	]0%,5%[	[5%,15%[	[15%,25%[	[25%,50%[	[50%,75%[	[75%,100%[
Banks	14.4%	8.8%	4.3%	1.2%	0.0%	0.0%	0.0%
Insurance	47.3%	10.5%	31.7%	3.5%	1.6%	0.0%	0.0%
Investment funds	58.2%	6.4%	26.5%	12.6%	10.1%	2.7%	0.0%
Executive directors	75.1%	42.2%	14.0%	6.8%	8.4%	3.3%	0.4%
Non-executive directors	42.0%	21.6%	9.5%	5.1%	4.3%	1.4%	0.0%
Industrial firms	28.6%	5.1%	15.2%	4.9%	1.6%	1.2%	0.4%
Families and individuals	15.4%	2.1%	6.8%	3.3%	3.1%	0.0%	0.2%
Government	1.4%	0.2%	0.8%	0.0%	0.2%	0.2%	0.0%
Real estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Panel B. Largest ultimate voting block by type of owner 1988-92

	Total	]0%,5%[	[5%,15%[	[15%,25%[	[25%,50%[	[50%,75%[	[75%,100%[
Banks	1.6%	0.2%	0.8%	0.6%	0.0%	0.0%	0.0%
Insurance	11.1%	1.0%	9.7%	0.4%	0.0%	0.0%	0.0%
Investment funds	27.6%	2.3%	18.9%	3.1%	2.7%	0.6%	0.0%
Executive directors	26.1%	7.8%	5.1%	6.4%	5.6%	1.2%	0.0%
Non-executive directors	10.9%	2.5%	3.1%	2.5%	2.5%	0.4%	0.0%
Industrial firms	14.8%	0.4%	3.7%	5.1%	5.1%	0.0%	0.4%
Families and							

individuals	3.1%	0.0%	1.4%	0.6%	1.0%	0.0%	0.0%
Government	0.6%	0.0%	0.4%	0.0%	0.2%	0.0%	0.0%
Real estate	0.2%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
Widely held	3.9%	--	--	--	--	--	--
	100.0%						

Notes: This table shows the percentage of sample companies with an aggregated shareholding (panel A) and a largest share stake (panel B) by category of owner and size.

Source: annual reports