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Patient Capital and Markets for Corporate Control

Corporate governance concerns the ways in which owners – that is, shareholders – control those who run the company for them – that is, managers. There are many dimensions of corporate governance, including transparency (the extent to which managerial decisions are subject to public scrutiny), accountability (the extent to which shareholders can discipline managers for the ways in which their decisions affect corporate performance), and incentive compatibility (the extent to which the goals of management and the goals of shareholders are aligned).[1] These are all problems of monitoring and sanctioning. The question for political scientists studying the politics of corporate governance is which dimensions of variation in national institutions of corporate governance are the most important, theoretically, in explaining the differences observed between liberal market economies (such as the United States) and coordinated market economies (such as Germany).

In recent years, scholars working in a variety of analytical traditions have come to focus on the market for corporate control as the key indicator of systemic distinctions among different varieties of capitalism.[2] The market for corporate control refers to the way in which the effective power over companies – that is, the ability to replace a senior management team – changes hands. There are two ideal-typical solutions to the problems of monitoring and sanctioning inherent in the corporate governance of publicly listed companies, both of which operate through the market for corporate control. In the first, the price of a company's shares serves as a public tool for dispersed shareholders to monitor and discipline managers. Markets pay close attention to the ability of a company to meet earnings expectations in each quarter, and a failure to meet those expectations causes some owners to sell their shares, and the share price of the company to fall. If the share price falls too far, the

[1] Berle and Means (1932).
[2] Hall and Soskice 2001, Amable (2003), Yamamura and Streeck (2004), Gourevitch and Shinn (2005).

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company can be taken over by new owners, who will replace the management team and attempt to reallocate the company's resources more efficiently. In this first scenario, public information and the threat of hostile takeover discipline a managerial team. Thus, the market for controlling the corporation is said to be an active constraint on the ability of managers to misuse the company's assets.[3]

In a second ideal-typical scenario, some set of insiders controls a block of the company's shares.[4] These insiders have the incentive and capacity to monitor management's performance. Such controlling insiders also discipline management, but they are not dependent on short-term, publicly available performance metrics to do so. Thus, they are said to supply the firm with *patient capital*: ownership that allows for the realization of long-term management strategies.[5] The price mechanism cannot discipline management in such a system because holders of patient capital do not automatically sell their shares if the share price declines following a quarterly report in which a company fails to meet expectations. Instead, their investment in the company provides management with a bulwark against change, so long as the management is perceived to be satisfying the holders of patient capital.[6] The strategic shareholding of patient capital leads to a passive market for corporate control, because even though share prices may vary, outsiders possess no easy mechanism for dislodging management in the case of prolonged poor performance.

Although highly stylized, these two endpoints define a continuum that most scholars of comparative political economy see as differentiating the corporate governance of coordinated market economies, such as Germany, from those of liberal market economies, such as the United States.[7] But how do we distinguish an active from a passive market for corporate control, empirically? In other words, how do we measure patient capital? One reason it has been so difficult to develop a cross-nationally reliable measure of patient capital is because different countries use different institutional arrangements to secure functionally equivalent goals – namely, the protection of managers from short-term market pressures. This is a classic challenge of comparative research.[8] Compounding this difficulty is the fact that patient capital is a firm-level characteristic, but scholars of comparative political economy are interested in characterizing the degree to which companies across a national economy have access to patient capital. Thus, the problem of measurement is twofold: how do we identify patient capital at the firm level, and how do we describe the use of patient capital across a number of firms in a given economy at a given time?

An example may clarify the distinction between a firm-level and an economy-wide measure. In every country, there are some companies with large

[3] Höpner (2003).
[4] Franks and Mayer (1995).
[5] Hall and Soskice (2001), Amable (2003: 253).
[6] Hall and Soskice (2001).
[7] Hall and Soskice (2001), Amable (2003), Yamamura and Streeck (2004), Gourevitch and Shinn (2005).
[8] Cf. Locke and Thelen (1995).

shareholders whose controlling interest in the company gives its managers patient capital: Microsoft and Google are two American examples. Most large companies in the United States do not have shareholders with stakes equal to those of Bill and Melinda Gates in Microsoft. Most U.S. companies have instead a widely dispersed set of shareholders, or ownership by mutual funds that hold shares as portfolio investments. Unlike the Gates family, these owners have no long-term commitment to a company. Their goal is to earn a good rate of return on their investment, and they will happily sell their shares to a hostile raider if the company's management team is seen to be underperforming. This makes them impatient capitalists. By way of contrast, in economies where most companies have access to ownership groups with large stakes and long-term commitment to the company, we talk of a country having a system of patient capital.

This chapter develops a variety of indicators to make judgments about differences across countries and over time in the degree of patient capital. In the first section, I briefly explore the differences between patient capital and other measurements used in the literature on the politics of corporate control. I then use available data sources to construct an ordinal country ranking of nineteen advanced industrial countries on the likelihood that large firms in a given country can draw on patient capital. The measure has many limitations, which I discuss, but it nevertheless uses some of the best available data to provide a rough indicator of how the advanced industrial countries line up on measures of patient capital. However, the ranking is merely a current snapshot of country differences. To provide a perspective on change over time, the chapter then moves to a discussion of the evolution of regimes of corporate control in the four countries of interest for this study: France, Germany, the Netherlands, and Japan. France and Germany, which historically depended heavily on ownership concentration as the source of patient capital, are shown to have traveled divergent roads. France has moved away from the patient capital model, to a system in which companies have lower average ownership concentration and large firms can be taken over by their foreign competitors. Germany remains a country of highly concentrated ownership, where hostile takeovers are an exceptional event. The Netherlands retains an unusual combination of low ownership concentration and low hostile takeovers, thanks to the idiosyncratic legal measures that continue to protect most of its firms from hostile takeover. Japan, like France, has seen its institutional protections against hostile takeovers erode. However, it has not yet seen the same upsurge in successful hostile takeovers as in France, though hostile takeover attempts have increased markedly, which has in itself increased the pressure of share price considerations on Japanese managers.

Patient Capital in Scholarship on Corporate Governance

Patient capital is distinct from two other dimensions frequently discussed in research on corporate governance: that which runs between bank-based and market-based systems,[9] and that dividing countries with high and low ownership concentration.[10] There is a long history of scholarship on the important and distinctive role of banks in economic development in late industrializing countries, although this approach is not without its critics.[11] Much of this scholarship, and indeed some of the current research on finance and corporate governance, has attributed to banks a distinctive role in the maintenance of patient capital in Germany.[12] It is often the case that financial institutions, such as banks and insurance companies, hold large blocks of shares in companies in countries that are generally considered to have patient capital. At least based on the evidence of the 1990s, however, claims about the special role of banks as shareholders of German companies have not found empirical support.[13] During the 1990s banks held some large blocks of shares in Germany, to be sure, but they behaved no differently than did other owners of large shares in Germany.[14] Theoretically, this book assumes that we are interested in patient capital per se, not whether it is provided by banks, families, or other nonfinancial companies.

A second categorical difference dominates the law and economics literature on corporate governance: the distinction between countries with concentrated and dispersed ownership.[15] This distinction, too, is closely tied up with the identification of countries having patient capital. Indeed, in the following empirical section, I use ownership concentration as one important indicator of patient capital. This literature comparing systems of blockholding and of dispersed ownership has focused especially on the question of how large shareholders expropriate minority shareholders, and for such a theoretical task its simple metric (concentration) may be well devised. For our purposes, countries with very high ownership concentration – that is, where most companies have one owner who holds a significant number of shares – all have systems of patient capital. However, there are other ways, beyond straightforward ownership concentration, through which companies can acquire a powerful group of insiders that protect them from the possibility of hostile takeovers. One such way is to have several companies that own shares in each other (cross-shareholding) for strategic purposes. Such arrangements are commonly attributed to France and Japan, for example.[16] A second, related form of protection is through the strategic coordination of several shareholders, even without formal cross-shareholding arrangements.[17] A third involves legal measures

9 Allen and Gale (2001), Barca and Becht (2001).
10 LaPorta et al. (1999).
11 Gerschenkron (1962), Zysman (1983), cf. Fohlin (1999).
12 Höpner (2003), Jackson (2003).
13 Jenkinson and Ljungqvist (2001), Windolf (2002: 45).
14 Edwards and Nibler (2000).
15 La Porta et al. (1999), Roe (2003).
16 LaPorta et al. (1999), Morin (2000).
17 Gourevitch and Shinn (2005).

that allocate special voting rights to some shareholders or that change the composition of shareholder meetings in the case of hostile takeovers, as exist in the Netherlands.[18] Although the institutional arrangements that secure patient capital may be idiosyncratic in some countries, it is the job of the comparativist to understand how different arrangements serve functionally equivalent goals across different countries. In more colloquial terms, there is more than one way to skin a cat. If cat skinning is the concept of interest, we need to find a measure that incorporates the different methods that countries use to flay a feline.

In the next section of this chapter I use different streams of information to shed light on how we might establish a country-level measure of the extent of patient capital. Although this measure does not include every possible method of cat skinning, it does show that the use of three distinct measures – ownership concentration, strategic shareholding, and hostile takeover frequency – produce ordinal outcomes whose endpoints are consistent with those described in the literature on comparative political economy for nineteen advanced capitalist democracies. Germany and Austria stand at one end of this index, and the United States and the United Kingdom stand at the other end.

Patient Capital: Cross-National Evidence

Any measure of patient capital must include an indicator of ownership dispersion. There are, however, multiple ways to measure the concentration of ownership and control in listed firms. One important debate among scholars in this area concerns whether one should only measure the voting rights of the single largest owner or instead try to include the interaction among large owners who typically vote their shares together.[19] In many countries, such as Austria, patient capital is the result of the predominance of single controlling owners with large individual blocks of shares. Those controlling owners may be families, states, or other corporations. In other countries, such as Japan, ownership is not concentrated in the hands of a single controlling blockholder. However, several owners may each own small shares, which they could use collectively as a way to protect managers from hostile takeover. In such cases, apparently diffuse shareholding – based on levels of absolute concentration, or on counting the percentage of blockholders in an economy – masks greater real levels of coordination among owners. An ideal indicator of patient capital would capture both these potential means of protection.

Below I use both sorts of data on the average concentration of control for large firms in the advanced industrial countries, using two independent

18 De Jong and Röell (2005).

19 For the first approach, see La Porta et al. (1999); for the second, see Barca and Becht (2001: 38–40). The first approach makes fewer assumptions about owners who work together, but La Porta et al. recognize that their method substantially understates the coordination through cross-shareholding in some countries.

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measures.[20] One set of data, collected from a variety of public sources, shows the voting rights of the single largest owner among the largest companies in the advanced industrial countries in 2004. A second source, the Thomson One Banker (T1B) database, tracks the average stable ownership ratio – that is, the proportion of shareowners thought to vote together in support of management.[21] These data provide comparable indicators of where countries stand in terms of ownership concentration.

The first thing that jumps out from Tables 2.1 and 2.2 is that the rankings of ownership concentration and strategic shareholding are highly correlated. For the nineteen countries that are included in both tables, these two independent sources of data give rankings that have a correlation coefficient of 0.82.[22] Only Spain and Sweden move more than four places in the rankings when comparing tables. Whichever measure one uses for large firms, these tables confirm that the general finding of highly dispersed ownership in the United States and the United Kingdom continues to hold true. Canada and Ireland also appear toward the bottom of each table. Australia shows slightly higher stable ownership than the other liberal market economy/common law/English-speaking countries.

A perfect measure of hostile takeovers would be an ideal index of the existence of patient capital. However, hostile takeovers are extremely difficult to measure.[23] Walter Wriston, the former head of Citigroup, is reputed to have asked, "What is the difference between a hostile and a friendly takeover?" and then answered, "About $2 per share." Boards of directors of companies have an incentive, and indeed a fiduciary duty, to extract the highest possible bid from a potential acquirer. Thus, the standard definition of a hostile takeover – a proposal for acquisition initially rejected by the board of a company – may mask a friendly takeover negotiated by a savvy board.[24] An apparently friendly takeover, if only announced at the conclusion of long negotiations that started out being rejected by the board, may in fact be a hostile takeover in all but name.

Using several different metrics, William Schwert attempted to establish the percentage of all U.S. takeover bids that were hostile, examining listed firms in

[20] I follow LaPorta et al. (1999) in concentrating attention on the largest companies in each economy. Largest companies tend to be the most engaged in international markets, even when smaller firms remain more closely tied to the traditional institutions of domestic finance (Deeg 2009).

[21] I report data only for countries for which T1B contained data on at least fifteen large companies.

[22] Table 2.1 (Ownership Concentration) does not include data for South Korea. Table 2.2 (Stable Shareholding) does not include data for New Zealand. These countries are excluded from subsequent tables.

[23] Schwert (2000), Nuttall (1999).

[24] An influential formulation of this definition of a hostile takeover was put forward by Morck et al. (1988: 3): "We call an acquisition hostile if the initial bid for the target (which need not be a bid from the eventual acquiror) was neither negotiated with its board prior to being made nor accepted by the board as made. Thus initial rejection by the target's board is taken as evidence of the bidder's hostility, as is active management resistance to the bid, escape to a white knight, or a management buyout in response to unsolicited pressure."

TABLE 2.1. *Average Voting Share of Largest Single Shareholder, 2004*

Rank	Country	N	Largest Shareholder's Voting Share (percent)
1	Austria	23	41.3
2	Belgium	25	36.4
3	Germany	38	34.8
4	New Zealand	26	34.5
5	Portugal	19	34.4
6	Denmark	22	32.7
7	Italy	40	31.9
8	Norway	26	30.6
9	Sweden	24	30.0
10	Finland	25	29.9
11	Switzerland	20	26.7
12	Spain	19	25.9
13	Australia	24	23.8
14	France	40	22.4
15	Canada	24	19.9
16	Netherlands	21	19.1
17	Japan	40	17.1
18	Ireland	25	15.3
19	United States	40	10.9
20	United Kingdom	36	9.5
	MEDIAN	557	28.3

Note: For each country, N refers to the number of the largest companies by market capitalization for which these averages are calculated. I am grateful to Ben Ansell and Dilyan Donchev for research assistance. The data for Japan are taken from the Nippon Life Insurance (NLI) database, which classifies stable ownership (as of March 2005). Given the changes in Japan since 2005, these data probably overestimate the real concentration of ownership in Japanese large firms. This table does not include South Korea.
Source: These data were collected from publicly available data sources, including the Orbis, Osiris, and Amadeus databases; the Financial Times 500; and information from individual stock exchanges and companies.

the United States between 1976 and 1996.[25] The most conservative estimate of this percentage was seven percent, based on the number of bids characterized as hostile in the *Wall Street Journal* or *Dow Jones News Retrieval* system. The mid-range estimate, based on classifications of the Securities Data Corporation (SDC), put the figure at twenty-one percent (from 1980–1996). The high figure, based on the number of takeover bids involving at least one unsolicited offer, was forty-two percent of all takeover contests. Schwert's summary of his results is apt: "the phrase 'hostile takeover' means different things to different people."[26] However, on all three measures, Schwert found a statistically

[25] Schwert (2000).
[26] Schwert (2000: 2638).

TABLE 2.2. *Average Stable Concentration, 2006*

Rank	Country	N	Stable Shareholder's Voting Share (percent)
1	Austria	28	57.1
2	Portugal	18	52.8
3	Spain	40	46.1
4	Norway	25	45.5
5	Germany	40	44.9
6	Belgium	26	43.2
7	Italy	40	39.0
8	Denmark	28	37.4
9	Switzerland	40	36.6
10	Australia	40	33.9
11	Netherlands	40	32.6
12	France	40	31.0
13	South Korea	40	29.8
14	Finland	40	27.7
15	Japan	40	27.1
16	Sweden	40	25.1
17	Ireland	19	23.3
18	Canada	40	16.0
19	United Kingdom	40	12.1
20	United States	40	7.8
	MEDIAN	704	33.9

Note: For each country, N refers to the number of the largest companies by market capitalization for which these averages are calculated. Data are only included for which T1B had a minimum of fifteen companies. For this reason, New Zealand is not included in this table. I am grateful to Grégoire de Chammard and Anne-Gaëlle Heliot-Javelle for research assistance.
Source: Thomson One Banker (T1B) database.

significant decline in the frequency of hostile deals in the United States after 1991.[27] Other studies observe similar temporal trends.[28]

The relative fluidity of different conceptions of what constitutes a hostile takeover makes international comparison difficult. However, the Thomson One Banker database features information on hostile takeovers across most of the advanced industrial countries since 1990. T1B classifies a takeover as hostile if the board officially rejects an offer of acquisition, but the acquiring firm continues pursuing the offer by other means, such as a tender offer. If the board changes its mind and accepts the offer, then the transaction is relabeled

[27] This decline is probably a result of the clarification of laws governing antitakeover devices in the United States, such as poison pills.

[28] David North found that nine percent of deals were hostile in a sample of American listed firms between 1990 and 1997 (North 2001). Charlie Weir and David Lang found that about ten percent of deals in the United Kingdom were hostile during the 1990s (Weir and Lang 2003: 1752).

TABLE 2.3. *Hostile Takeovers Completed and Attempted and Friendly Mergers, 1990–2007*

Rank	Country	Hostile Takeovers Completed	Hostile Takeovers Attempted	Friendly Mergers Completed
1	United States	55	162	7853
2	United Kingdom	45	97	1748
3	Australia	27	38	448
4	Canada	19	50	697
5	France	9	17	786
T6	Italy	4	6	471
T6	Spain	4	10	331
T6	Sweden	4	11	276
9	Germany	3	5	678
10	Netherlands	2	6	321
T11	Belgium	1	1	112
T11	Denmark	1	3	91
T11	Finland	1	2	106
T11	Ireland	1	3	62
T11	Japan	1	4	508
T11	Norway	1	8	123
T11	Portugal	1	5	69
T11	Switzerland	1	6	160
19	Austria	0	1	54
	MEDIAN	2	6	321

Note: Based on all deals valued at $200 million or more in constant (inflation adjusted) dollars. T1B classifies a takeover as hostile if the board officially rejects an offer of acquisition, but the acquirer continues pursuing the offer by other means, such as a tender offer. If the board changes its mind, and accepts the offer, then the transaction is relabeled "friendly." The data on hostile takeovers attempted includes hostile deals classified by T1B as "withdrawn" or "intent withdrawn." Intended deals are those for which the acquirer has publicly announced the intention to make an offer but later retracted it (for example, in the face of an adverse reaction from the board of the company to be acquired). A very small number of transactions falls into this latter category.
Source: Thomson One Banker (T1B) database.

"friendly." As many offers start hostile and wind up friendly, the T1B data are almost surely a conservative estimate of the extent of hostile takeovers in an economy. Nevertheless, the T1B definition has the great virtue of being standard across countries, and thus allows us to see how hostile takeover activity in the advanced industrial countries compares to that observed in the United Kingdom and the United States, the general exemplars of liberal market capitalism. Hostile takeovers are comparatively rare, even in the United States and the United Kingdom, so I include for each country all hostile takeovers attempted and failed between 1990 and 2007, along with the number of friendly deals completed during this time.

TABLE 2.4. *Hostile Takeovers as a Proportion of Total Deal Activity, 1990–2007*

Rank	**Country**	**Ratio, Hostile to Friendly Deals (percent)**
1	Australia	6.03
2	Canada	2.73
3	United Kingdom	2.57
4	Ireland-Rep	1.61
5	Sweden	1.45
6	Portugal	1.45
7	Spain	1.21
8	France	1.15
9	Denmark	1.10
10	Finland	0.94
11	Belgium	0.89
12	Italy	0.85
13	Norway	0.81
14	United States	0.70
15	Switzerland	0.63
16	Netherlands	0.62
17	Germany	0.44
18	Japan	0.20
19	Austria	0.00
	MEDIAN	0.94

Note: See previous table for definition of hostile takeover. The denominator includes all deals classified as friendly in the T1B database.
Source: T1B database, based on deals valued at $200 million or more in constant (inflation adjusted) year 2000 dollars.

The United States has the most hostile takeovers in the world, as we might expect, given both the reputed functioning and the size of its market. However, according to the T1B database, if we consider hostile takeovers *in proportion* to the number of overall friendly deals in the economy, the United States' lead in hostile takeovers is largely a function of its very large economy. Australia, Canada, and the United Kingdom have far more hostile takeovers, as a percentage of overall deals, than does the United States (see Table 2.4).[29] Indeed, despite the relatively high level of stable ownership in the Australian economy – in which seventy-three percent of firms have at least a set of shareholders holding at least twenty percent of voting rights in the company – we see that some

[29] These data for the United States are surprising, given the reputation of its active market for control. I therefore compared the T1B data with the figures available from the Securities Data Corporation (SDC) Platinum Mergers and Acquisitions database. Those figures were very similar, showing the same low comparative figure for the United States.

TABLE 2.5. *Average Rank of Countries on Attributes of Patient Capital, circa 2005*

Country	Ownership Concentration, 2004	Stable Concentration, 2006	Inverse Combined Ranking, Frequency, and Absolute Hostile Takeovers	Average Rank
Austria	1	1	1	1.0
Germany	3	5	5	4.3
Belgium	2	6	7	5.0
Norway	7	4	6	5.7
Portugal	4	2	11	5.7
Denmark	5	8	9	7.3
Switzerland	10	9	3	7.3
Italy	6	7	10	7.7
Spain	11	3	14	9.3
Finland	9	13	8	10.0
Netherlands	15	11	4	10.0
Japan	16	14	2	10.7
Sweden	8	15	16	13.0
France	13	12	15	13.3
Australia	12	10	19	13.7
Ireland	17	16	13	15.3
Canada	14	17	17	16.0
United States	18	19	12	16.3
United Kingdom	19	18	18	18.3

Note: The final column of this table displays the average of country rankings on stable shareholding, concentrated shareholding, and incidence of hostile takeovers presented earlier in the chapter. The hostile takeover ranking is itself an average of the country ranking of overall frequency of hostile takeovers and the ranking of number of hostile takeovers relative to friendly deals. In order to be combined with the first two rankings, the hostile takeover data are presented in reverse order, such that low numbers means lowest incidence of hostile takeovers. Austria ranked first on all three indicators, and so its average rank is 1.0; the United Kingdom ranked last or second-to-last on every indicator among the nineteen countries, giving it the lowest average rank of 18.3.

concentration is not inconsistent with an active market for corporate control. The other English-speaking liberal market economy countries cluster at the top of the rankings, which is consistent with the expectations of the varieties of capitalism literature.

Each of the indicators reviewed here provides some information about the extent to which institutions of patient capital secure a passive market for corporate control across the industrialized countries. In Table 2.5, I average the country rankings on three indicators – the stable ownership rank, the concentration rank, and the hostile takeover activity rank[30] – to produce a relative

[30] To produce an overall ranking for the data on hostile takeovers, I averaged the rankings for absolute number of hostile takeovers with the ratio of hostile takeovers to friendly deals.

ranking of countries along the dimension of patient capital. This measure is undoubtedly crude, for several reasons. First, it ignores local context in order to rank countries according to common criteria; thus, there is no inclusion of effective legal barriers to hostile takeovers, which are very important in the Dutch political economy. Second, it combines recent snapshots of ownership concentration with hostile takeover activity since 1990, and it fails to take account of increases in the number of *failed* hostile takeovers in some countries, such as Japan. Finally, it is but an average ordinal measure, showing how countries compare to each other on these indices, rather than an absolute indicator. Each of these is a serious drawback, and the next section of this chapter attempts to correct for some of the weaknesses of this indicator by showing data on change over time within individual countries.

Nevertheless, the data are worth summarizing in this admittedly imperfect form to show that these rankings correspond well with the expectations of existing scholarship in political economy. Those countries with the highest average rankings – Austria, Germany, and Belgium – appear on almost any short list of countries with passive markets for corporate control. The bottom five countries are even less surprising. Australia, Ireland, Canada, the United States, and the United Kingdom have the most active markets for corporate control, as the scholarly literature on the varieties of capitalism suggests that they would. In the next section, we turn to change over time in several of the cases that fall at neither end of the two extremes in this ranking. It is in these cases where knowledge of local context becomes more important in establishing the current state of play in institutions of patient capital and markets for corporate control.

Change Over Time in Patient Capital

In order to make comparisons across the group of advanced industrial countries, the previous section relied on a current snapshot of three characteristics associated with patient capital: concentrated ownership, stable ownership groups, and limited hostile takeover activity. By these conventional metrics, Germany remains a paradigmatic example of a passive market for corporate control with stable patient capital. It is the large country that most thoroughly combines high ownership concentration and minimal occurrence of hostile takeovers. Since 1995, these traits of the German market have not changed. This section considers German stability against the changes over time observed in France, the Netherlands, and Japan. We first review some measures of the changes in stable ownership groups across these cases. Then, we explore with more contextual depth the evolution of these cases over time.

On the first measure of ownership concentration – average percentage of stable shareholding among the forty largest companies in the economy – France and Japan both experienced a sharp decline between 1997 and 2006. Germany and the Netherlands experienced minimal change. The Netherlands, which started with the lowest average ownership concentration of the four countries,

TABLE 2.6. *Change in Average Stable Concentration, 1997–2006 (Top Forty Companies)*

Country	1997 (percent)	2006 (percent)	Change (percent)
Japan	37.7	27.1	−28.1
France	37.6	31.0	−17.6
Germany	48.3	44.9	−7.0
Netherlands	34.0	32.6	−4.1

Source: T1B Database.

saw the lowest drop among them in the percentage of stable shareholding. The Netherlands, in fact, finished the period with marginally higher concentration than both Japan and France. Germany started and finished the period with much higher ownership concentration than the other three countries.

Table 2.6 includes both financial firms, such as banks and insurance companies, and nonfinancial companies, such as automobile and software companies. It is possible that the globalization of financial ties affects the two sectors differently, as financial firms may feel greater pressure to respond to calls for shareholder value, given their own large and diverse portfolio holdings. Moreover, because nonfinancial firms have historically led the political organization of business in most advanced industrial countries, it is worth examining the premise that the most important indicators of the real economy lie in the ownership of nonfinancial companies. Table 2.7 portrays the change over time for the twenty-five largest nonfinancial companies in these four economies between 1997 and 2006.

Table 2.7 confirms the impression that France and Japan have experienced much more sweeping change than have the Netherlands and Germany. These data show that changes in France have been especially large among nonfinancial firms, while the vertiginous change in Japanese shareholding is led by the decline in the ownership concentration of banks. Several large French mutualist banks, such as Crédit Agricole, have an ownership structure in which over fifty percent of the voting shares are controlled by groups sympathetic to management. This is not the case for French commercial banks, such as BNP/Paribas, but the

TABLE 2.7. *Change in Average Stable Concentration, 1997–2006 (Top Twenty-Five Nonfinancial Companies)*

Country	1997 (percent)	2006 (percent)	Change (percent)
France	34.0	26.7	−21.4
Japan	39.0	31.7	−18.7
Netherlands	39.0	35.9	−7.9
Germany	46.4	48.1	+3.7

Source: T1B Database.

inclusion of the mutualist banks in the data for the forty largest companies leads to an understatement of the degree of change in the real economy in France. In Japan, meanwhile, the bankruptcy of several banks between 1997 and 1999, combined with the low returns on bank stocks compared with the overall equity market, forced nonfinancial companies to unload their bank shares at this time.[31] In the Netherlands and Germany, by contrast, concentrated ownership in nonfinancial firms was stable, and in Germany the average concentration of shareholding ownership even increased slightly over this period.

It is clear from the evolution of the concentration of stable shareholding in these countries that France and Japan have experienced large changes. The Netherlands, like Germany, has not. Germany ends the first decade of the twenty-first century the same way it began the last decade of the twentieth: with a stable system of patient capital. However, even if there has been much *change* in France, there is not a big difference in the current *level* of stable shareholding in the Netherlands, France, and Japan. It is important to provide the political context of these three individual countries to understand why the changes in France and Japan have amounted to important institutional transformations of national markets for corporate control, while the market for corporate control in the Netherlands has not changed in any significant respect. The most central fact, as we will see in the next three subsections, is that cross-shareholding networks were important barriers to takeover in the first two countries, whereas the Netherlands enjoyed formal legal protections against hostile takeovers that did not depend on either cross-shareholding or high ownership concentration. This is a reminder that differences in national institutional context remain an important consideration for any discussion of change over time in comparative patient capital.

The Destruction of the French Institutions of Patient Capital

Three features characterized the French model of patient capital until the early 1990s: high levels of state ownership, concentrated ownership of those large companies in the private sector, and corporate cross-shareholding. For most of the postwar era, the state played a dominant role in the French economy, both by virtue of its direct ownership of many of the largest French firms and by the fact that many corporate elites moved to their jobs after long careers in the state bureaucracy.[32] In the early 1980s, the French government owned thirteen of the twenty largest firms in the economy, including virtually all the banks.[33] When a government of the right came to power in 1986, it inaugurated the privatization of many of the large state-owned companies, a program that would continue off and on for two decades. It was during the initial period of privatization that bureaucrats under Finance Minister Edouard Balladur built on existing patterns of cross-shareholding to construct networks of stable ownership

[31] Miyajima and Kuroki (2007: 89–90).
[32] Schmidt (1996).
[33] Culpepper (2006: 32).

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(the so-called *noyaux durs*, or hard cores) to shield companies from the pressures of financial markets and from the prospect of hostile foreign takeovers.[34] The goal of the *noyaux durs* was to use the private sector to replace the state as a source of long-term industrial ownership, thus enabling privatization to take place while maintaining patient capital in France. The heart of the newly reinforced system comprised two networks of companies that held each other's shares for strategic reasons. One network was centered around the bank Société Générale (SocGen), the other around the Banque Nationale de Paris (BNP). As of 1997, these networks stood at the middle of an extended chain of strategic shareholding, which tied together most of the large companies in the French economy, to different degrees.[35] Figure 2.1 illustrates these ownership ties.

These ownership networks, stable between 1988 and 1996, collapsed suddenly in 1998 and 1999. Table 2.8 shows that the mutual voting shares held by companies at the center of the two "hard core" shareholding groups fell by about half in 1998 and 1999.[36] These interlocking French shareholdings among large French firms were replaced by the growing weight of foreign (mostly British and American) institutional investors, which by 2003 owned more than forty percent of the outstanding shares in CAC-40 companies.[37] Moreover, not all foreign institutional investors are alike: pension funds, for example, generally have longer time horizons than mutual or hedge funds. As Michel Goyer has demonstrated, the influx of Anglo-American institutional investors in France has been dominated by mutual and hedge funds, not by pension funds.[38] Thus, patient capital in France was replaced by the most impatient of capitalists.

The breakdown of the *noyaux durs* catalyzed the transformation of the French market for corporate control. As the large companies at the center of the network cast aside their cross-shareholdings in order to use the capital for expansion, other corporate owners across the economy rapidly followed. The destruction of these networks resulted in the dilution of concentrated ownership in France, which had been the foundation of French institutions of patient capital. In 1997, the average voting share of the single biggest shareholder of the forty largest French companies was thirty-seven percent; by 2005 it had dropped to twenty-two percent. An alternative metric of control – the number of these top companies in which the single largest voting share is twenty percent or higher[39] – fell from sixty-four percent in 1997 to forty-nine percent in 2005.

These transformed patterns of shareholding among French large companies made possible the spread of large hostile takeovers. Between 1990 and 1998, there were only three successful hostile takeovers in France, and the total dollar

34 Morin (2000), Schmidt (1996: 123).

35 Morin and Rigamonti (2002).

36 Data on changes in French share ownership comes from the LEREP Database of the University of Toulouse.

37 Goyer (2003).

38 Goyer (2006b).

39 Cf. La Porta et al. (1999).

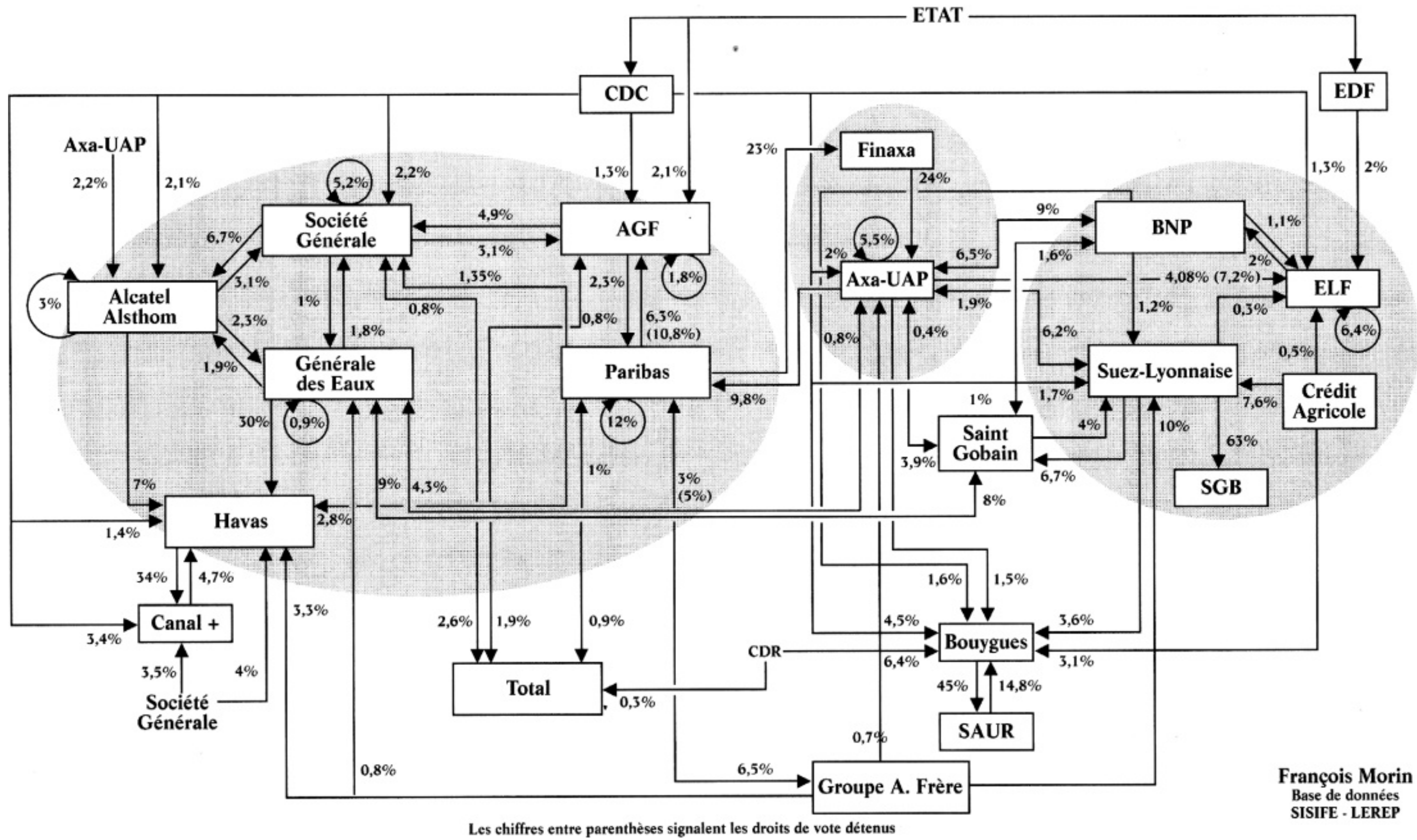

FIGURE 2.1. The French Hard-Core Shareholding Network, 1997
Source: François Morin, "Le Modèle Français de Détention et de Gestion du Capital," Rapport au Ministre de l'Economie, des Finances et de l'Industrie. Les Editions de Bercy, June 1998, Collection Etudes, p. 27.

TABLE 2.8. *Breakdown of the Hard-Core Networks of French Cross-Shareholding*

	1996	1997	1998	1999	2000	Change, 1996–2000 (percent)
BNP Network						
BNP	16.8	16.1	11.0	8.2	8.6	−48.7
St. Gobain	22.6	22.3	22.3	13.5	7.6	−66.5
Suez/Lyonnaise des Eaux	8.4	8.4	8.4	1.7	1.4	−83.4
UAP/AXA	9.0	9.0	6.9	6.9	6.9	−23.0
Vivendi	16.5	15.1	14.1	8.7	4.9	−70.5
SocGen Network						
AGF	4.5	5.6	6.0	2.5	2.5	−44.2
Alcatel	7.0	6.7	8.4	5.0	4.4	−38.0
Aventis	11.5	12.3	14.4	7.5	6.9	−40.4
SocGen	23.0	24.7	28.8	15.0	13.7	−40.4

Note: Figures depict the proportion of a company's voting shares controlled by the other central members of its hard core network. These figures exclude some other stable and cross-shareholding ties, illustrated in Figure 2.1, which also fell in tandem with the core shareholdings depicted here.
Source: Data from the LEREP database of the University of Toulouse. This table is adapted from Culpepper (2005).

value of all three deals was just under $7 billion. There were four successful hostile deals in 1999 alone, collectively worth more than $66 billion dollars. Three additional hostile takeovers took place between 2000 and 2004, which together were valued at $64 billion.[40] Two of these large deals involved French companies being acquired by foreign companies. The hostile takeover of the industrial giant Pechiney by the foreign company Alcan in 2003 symbolized for the French press the "ultra [neo]-liberal" turn of the French economy. Pechiney, once a state-owned company and the spearhead of French industrial policy, passed into foreign ownership with scarcely any political protest at all.[41] Such an outcome would have been inconceivable ten years earlier.

Takeover Defenses and the Market for Corporate Control in the Netherlands

Despite the lack of concentrated ownership that characterized France and Germany in the postwar period, the Netherlands has an inactive market for corporate control. There were no successful hostile takeovers in the Netherlands between 1990 and 2000. This is a result of the multiple protections against hostile takeovers introduced by Dutch companies. For example, one 1989 study found more than fifty such protective measures used by Dutch companies.[42]

[40] Dollar values of deals in this paragraph are taken from the T1B database and are expressed in constant dollar value, based on the year 2000.
[41] De Kerdrel (2003).
[42] Voogd (1989).

These measures allow managers to divorce the voting power of shares from the economic power of shares in a variety of ways. In this section I will focus on three of the measures most relevant to large listed companies in the Netherlands: preference shares, priority shares, and certificates. How do these work, and what is the distribution of these shares among Dutch companies?

Preference shares and priority shares differ in their purpose and structure. Preference shares allow managing boards to change the voting balance of shareholders in case of an attack, while priority shares are typically used to maintain special voting control in the hands of founding owners or families. Managing boards can issue preference shares without the consent of current shareholders, and these shares carry a high ratio of voting power to capital.[43] In the case of hostile takeovers, management can sell preference shares to a foundation, called a trust office – an organization created for the defense of the firm from takeovers – for twenty-five percent of their nominal value (not their market value). Depending on other takeover defenses at the company, the amount issued to the trust office can equal one hundred percent of shares outstanding at the time of issuance, thus creating an effective bulwark against hostile acquisition.[44] Priority shares, which are the second type of protective share available to Dutch companies, exist in other countries as well as in the Netherlands.[45] Priority shares give voting power disproportionate to economic value to certain shareholders – in the Dutch case, often to trust offices specifically tasked with protecting the company.

The previous two classes of shares are embedded in law. A third common type of protective device – share certification – is an informal (nonstatutory) practice that divorces voting rights from economic rights. In certification, the voting rights of shares issued to shareholders remain with a management-friendly trust office, while the shareholder has only a certificate for the economic value of the shares. As de Jong et al. characterize the device,

> the trust office is always friendly to existing management. The trust office is given responsibility for the ordinary shares. Through the process of certification, legal (not "economic") ownership of the ordinary shares is transferred to the trust office.... Certificate holders have dividend rights, can trade and attend the general meeting, but they cannot vote.... The trust office holds all voting rights including approval of the dividend policy.[46]

Each of these devices is in principle capable on its own of preventing a hostile takeover. Yet during the postwar period, many Dutch companies accumulated multiple protections as an insurance policy against being taken over. Table 2.9 shows that, during the period between 1993 and 2007, they reduced

43 Heemskerk (2007: 56).
44 De Jong et al. (2006: 356).
45 The founders of Google, for example, have shares with special voting rights.
46 De Jong et al. (2006: 356).

TABLE 2.9. *Takeover Defenses Used by Dutch Companies, 1993–2007*

	1993 (percent)	2001 (percent)	2007 (percent)
Preference shares	60	63	57
Priority shares	43	34	15
Certification	38	20	8
N	143	50	50

Source: Figures for 1993 are reported in De Jong and Röell (2005: 490); figures for 2007 are reported in Munsters and Abma (2007).

their reliance on other mechanisms while maintaining preference shares. Financial firms have been much more willing than nonfinancial firms to give up this protection in recent years.

Understanding the widespread use of protection mechanisms allows us to put the data on ownership concentration in the Netherlands into their political context. Unlike firms in Germany or France, Dutch patient capital does not depend on having concentrated owners. The existence of trust offices gives Dutch companies the protective benefits of ownership concentration without having concentrated owners because, with the activation of preference shares, most voting rights flow to the trust office in the case of a hostile takeover bid. To show how this affects the real degree of protection of companies, Table 2.10 compares *actual* ownership concentration of Dutch companies with the *effective* concentration provided through measures related to the trust office. The first row of Table 2.10 shows the average voting rights held by the largest shareholder. The second row shows the average voting rights held by the largest voter in the case of an attempted hostile takeover, which triggers the protective devices just discussed. As the table shows clearly, Dutch managers do not need the protection of a concentrated owner so long as they have the protection of a friendly trust office.

Table 2.10 shows not only the level of protection, but how that level of protection evolved between 1997 and 2004. As we saw earlier in the chapter, the degree of stable shareholding changed very little in the Netherlands. It is equally true, moreover, that the degree of effective protection also changed very

TABLE 2.10. *Concentration of Dutch Shareholding without and with Trust Offices*

	1997 (percent)	2004 (percent)
Actual concentration	18	19
Effective concentration	49	45

Note: These data are for the largest sixteen companies in the Netherlands (1997) and the largest twenty-one companies in the Netherlands (2001) based on market capitalization.

Source: Data collected from publicly available sources. Thanks to Ben Ansell and Jane Gingrich for research assistance.

little over this time. The relative dispersion of Dutch shareholding, which we observed early in the chapter, masks the fact that effective takeover protection in Dutch large companies appears as strong as the protection favoring German large companies. As in Germany, hostile takeovers remain a rarity in the Dutch large company universe. Whereas the basis of German stable shareholding is primarily the economic institution of concentrated shareholding, Dutch patient capital is a political construction. It depends on the ability of senior managers to use preference shares to defend their companies from hostile bids.

The Decline of Cross-Shareholding in Japan

In cross-national perspective, Japan has maintained dispersed shareholding throughout the postwar period. However, although the individual blocks of shares held by owners "friendly to management" are small, their cumulative weight was long regarded as an effective deterrent to hostile takeovers.[47] The conventional view of the postwar Japanese economy emphasizes the informal links among firms within individual networks, called *keiretsu*, organized around large banks or trading houses such as Fuji or Mitsubishi.[48] The term *keiretsu* is often used to refer both to horizontal links between allied companies as well as vertical links among supplier companies and their large customers.[49] Both sorts of shareholding networks could function as takeover protection. To assess patient capital in Japan, I rely on well-established public indicators of the degree of the long-term shareholding of listed Japanese companies, which include all types of owners considered unlikely to sell their shares on the basis of short-term fluctuations in share prices.

The most consistent data on ownership in Japanese companies has been assembled by Nippon Life Insurance Research (NLIR). NLIR tracks two measures of stable shareholding in Japanese companies. Its first measure, long-term ownership, includes all owners of a company's shares that are categorized as being held for long-term or strategic alliances. It includes ownership by commercial banks, perceived as being of long-term nature, but it excludes the holdings of trust banks, which maintain a portfolio approach and can change their holdings more rapidly. The second indicator, cross-shareholding, measures only the percentage of shares in company x held by other corporations in which company x also owns shares. The NLIR cross-shareholding figures are lower on average than are the long-term ownership figures. During the first half of the 1990s, both measures were stable among the largest companies. In 1996, the largest forty companies in Japan had on average about thirty-nine percent

47 Dore (2000), Miyajima and Kuroki (2007). Cross-shareholdings were mainly built up during the 1960s, after the liberalization of capital flows led many Japanese managers to be concerned about the possibility of hostile takeover by foreign companies (Ramseyer 1987: 21–22; Gao 2001: 83–85; Miyajima and Kuroki 2007: 85).

48 Pempel (1998), Jacoby (2005).

49 On the functioning of *keiretsu*, see Pempel (1998: 70–71), Dore (2000: 39), and Gao (2001). Miwa and Ramseyer (2006) have recently challenged the prevailing wisdom about the strength of ties within the *keiretsu*.

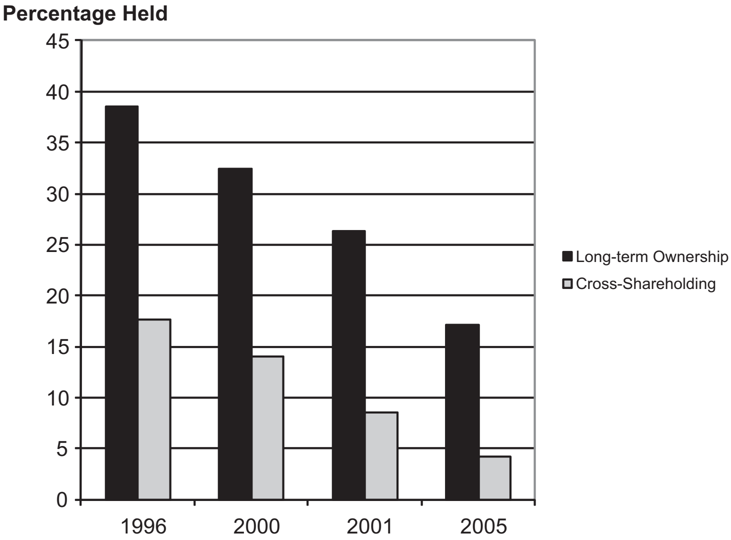

FIGURE 2.2. Decline in Stable Shareholding in Japan, 1996–2005
Source: Nippon Life Insurance Research Institute (NLIR).
Note: The vertical axis refers to the proportion of a company's shares held either by other companies identified by NLIR as having a strategic rather than a portfolio shareholding logic with respect to the given company (long-term ownership) or by other companies with which the company has reciprocal shareholdings (cross-shareholding). These data refer to the forty largest companies in the Japanese economy, as measured by market capitalization. I am grateful to Hiroshi Amemiya, Chiaki Yamada, and Orie Hirano for their help in research assistance and translation of the Japanese data.

of shares held by long-term owners, and about eighteen percent of shares held in cross-shareholding (the same percentages as in 1991).

The stability of stable shareholding in Japan rapidly disintegrated after 1996. Figure 2.2 illustrates this trend. Between 1996 and 2005, long-term ownership as measured by NLIR was reduced by more than half, falling from thirty-nine percent to seventeen percent of shares in the average large company. The drop was even sharper in cross-shareholding during this time, moving from eighteen percent of shares in 1996 to just four percent of shares in 2005.

The fall in Japanese stable shareholding coincided with the beginnings of a hostile takeover market in Japan. Between 1990 and 1998, only a single hostile takeover was attempted in Japan, and it failed. In 1999, the British company Cable & Wireless launched the first successful hostile takeover in Japan when it acquired International Digital Communications (IDC). This bid was followed by several others in the following years, but those bids generally failed. In Table 2.11, I show two different sources on the occurrence of hostile takeovers in Japan. The first is the comparative data from the Thomson One Banker Database (T1B), which I have used throughout this chapter. The T1B data show six hostile bids – all of which failed – between 2000 and 2006. The second

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TABLE 2.11. *Activity in the Japanese Hostile Takeover Market, 1990–2007*

	1990–1998		1999–2007	
	Attempted	**Successful**	**Attempted**	**Successful**
Thomson data	0	0	7	1
RECOF data	1	0	24	4

Source: RECOF and Thomson.

data source is the hostile takeover database of the RECOF Corporation. The RECOF data, widely used in Japan, classify all unsolicited deals as hostile deals. The RECOF data are more inclusive than the T1B data and should probably be considered an upper bound on the possible extent of hostile takeover activity in the Japanese market. By this more generous measure, there were twenty-four hostile bids between 1999 and 2007, of which four were successful. Yet, even the more conservative data from Thomson show that the number of attempted hostile takeovers has increased substantially in Japan, confronting managers with a previously unknown market pressure. Hostile takeovers have become possible in Japan, but their success has been limited, at least as of this writing.

The period between 1996 and 2005 marked an end to the practice of widespread cross-shareholding among large Japanese companies and saw a sharp attenuation of the practice of stable shareholding. The disappearance of the old institution that protected companies from hostile takeovers prompted government officials to develop a proposal for the introduction of poison pill defenses, a process that I discuss in Chapter 5. Only ten percent of listed companies had adopted a poison pill defense as of 2008. Thus, from the perspective of straightforward protection, the ramparts of the Japanese model of patient capital have crumbled. Hostile takeovers have not yet proliferated, at least on the scale seen in the United States and the United Kingdom. Yet the balance of the evidence suggests that capital in Japan is far less patient than it was in 1995.

Conclusion

Patient capital has proved an elusive quarry for those who would nail it down empirically. In this chapter, I have used multiple indicators to establish a rough ordinal ranking of the activity of markets for corporate control. To do so, I have brought together measures of ownership concentration, strategic shareholding, and hostile takeover activity. While ownership concentration is the simplest of these measures, it also misses other forms of insider coordination, which can be used to protect managers from the threat of hostile takeovers. The T1B data provide information on strategic shareholding, which complements this data by making an assessment of the degree of stable ownership by country. Hostile takeovers are an important direct measure of the activity for market for corporate control, to be sure, but the data on hostile takeovers are suspect, because evaluations of hostile takeovers can vary widely between one source and another.[50] These three measures of patient capital come much closer to measuring the theoretical concept than do measures that look at distantly related (but easily available) measures such as the extent of stock market capitalization. Even so, the comparative empirical classification of degrees of patient capital remains a work in progress. It is to be hoped that future research will build on this effort to put together cross-nationally reliable data on the degree of patient capital.

These caveats notwithstanding, the ordinal ranking of countries in Table 2.5 confirms that Germany and the United Kingdom stand at opposite ends of the patient capital spectrum. As of this writing, Germany retains many of the barriers to an open market for corporate control that have led to its central role in the varieties of capitalism literature.[51] France, in marked contrast, is the non-English speaking country with the most active market for corporate control. The dissolution of concentrated ownership and cross-shareholding in France, and the burst of hostile acquisitions that followed in 1999, have radically transformed the once-staid market for corporate control in France. The political story of how the markets for corporate control in France and Germany came to such different points in the last decade is the subject of the next chapter.

The Japanese and Dutch cases – both formerly considered to be firmly in the camp of patient capital, despite their low ownership concentration and strategic shareholding – show the limits of the ordinal rankings established in this chapter. Both have recorded a low number of hostile takeovers, according to T1B, and each has historically enjoyed idiosyncratic measures of protection against hostile takeovers. Yet the institutions of protection fared very differently in the two countries. The Dutch measures of takeover protection, enshrined in preference shares that revert to trust offices in the case of hostile takeover, continue to be used by a majority of Dutch large firms. There has been no upsurge in attempted hostile takeovers in the country. The one outstanding case of an effective hostile takeover this decade – that of ABN-Amro by Royal Bank of Scotland in 2007 – only took place because ABN-Amro chose to renounce the measures that protect other Dutch firms. We return to the Dutch case in Chapter 4. Meanwhile, the stable shareholdings of Japanese companies collapsed between 1996 and 2005. This did not lead, as in France, to a series of successful hostile takeovers of large companies. It did, however, lead to a burst of attempted hostile takeovers, most of which failed. How managers have responded to this environment of lower patient capital is a question we take up in Chapter 5.

50 Schwert (2000).

51 Hall and Soskice (2001).