

Foundations Owning Firms

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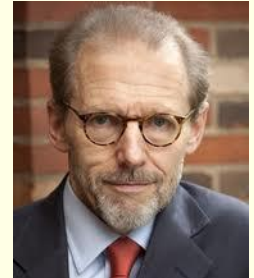
Center for Corporate Governance

Copenhagen Business School

<http://uk.cbs.dk/ccg>

Agenda

- What are "industrial foundations"?
- Performance: How do they perform?
- Governance: How to govern them?
 - Joint work with Henry Hansmann



Industrial Foundations in the Danish Economy¹²³

Steen Thomsen⁴
Center for Corporate Governance
Copenhagen Business School

October 7, 2013

The Performance of Foundation-Owned Companies¹²

Steen Thomsen³
Center for Corporate Governance
Copenhagen Business School

Henry Hansmann⁴
Yale Law School

April 27, 2013

Managerial Distance and Virtual Ownership: The Governance of Industrial Foundations^{1,2}

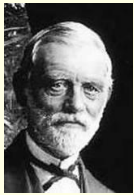
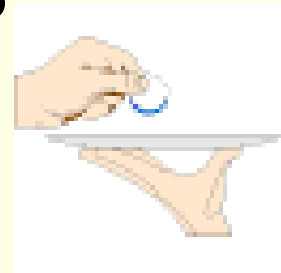
Henry Hansmann³
Yale Law School and ECGI

Steen Thomsen⁴
Center for Corporate Governance
Copenhagen Business School

January 2013

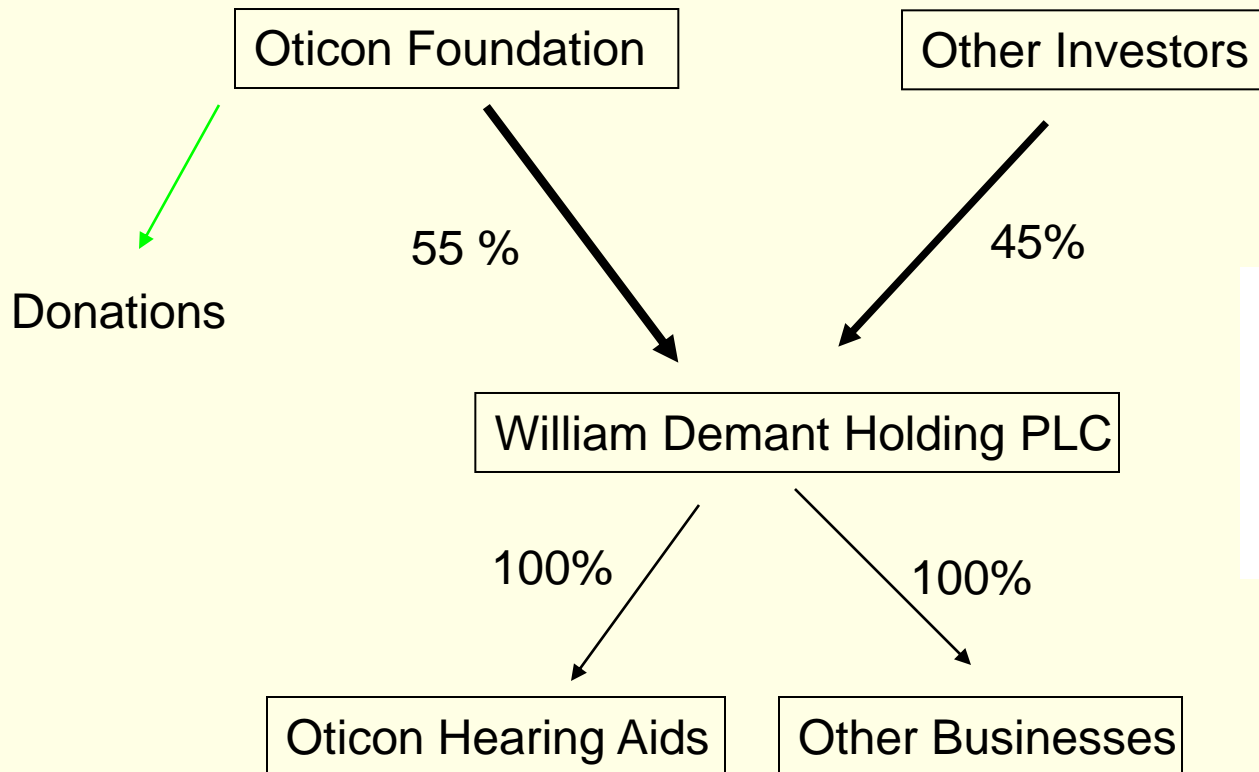
Industrial foundations: Foundations owning firms

- Non-profits that own business firms
- Creation by donation
(Gift, inheritance, conversion, privatization..)
- Independence (no owners, no members)
- Endowment (shares, financial investments)
- Governance by Charter
- Government Supervision
- Business activity
- Common in Northern Europe, particularly

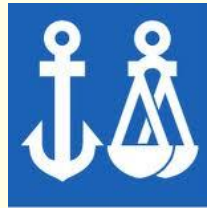


Denmark

An Example: William Demant



Foundation/Trust ownership



The Hershey Company (NYSE:HSY)

Add to portfolio

68.41

0.00 (0.00%)

Jun 25 - Close

NYSE real-time data - Disclaimer

Currency in USD

Range	-	Div/yield	0.38/2.22
52 week	53.83 - 71.00	EPS	2.91
Open	-	Shares	223.65M
Vol / Avg.	0.00/1.27M	Beta	0.26
Mkt cap	15.30B	Inst. own	54%
P/E	23.51		

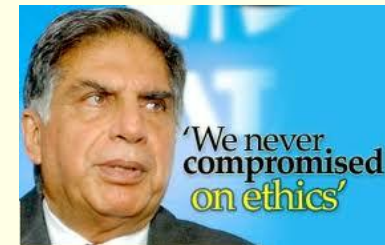


Compare: Add Dow Jones S&P 500 2217 1236 [more »](#)

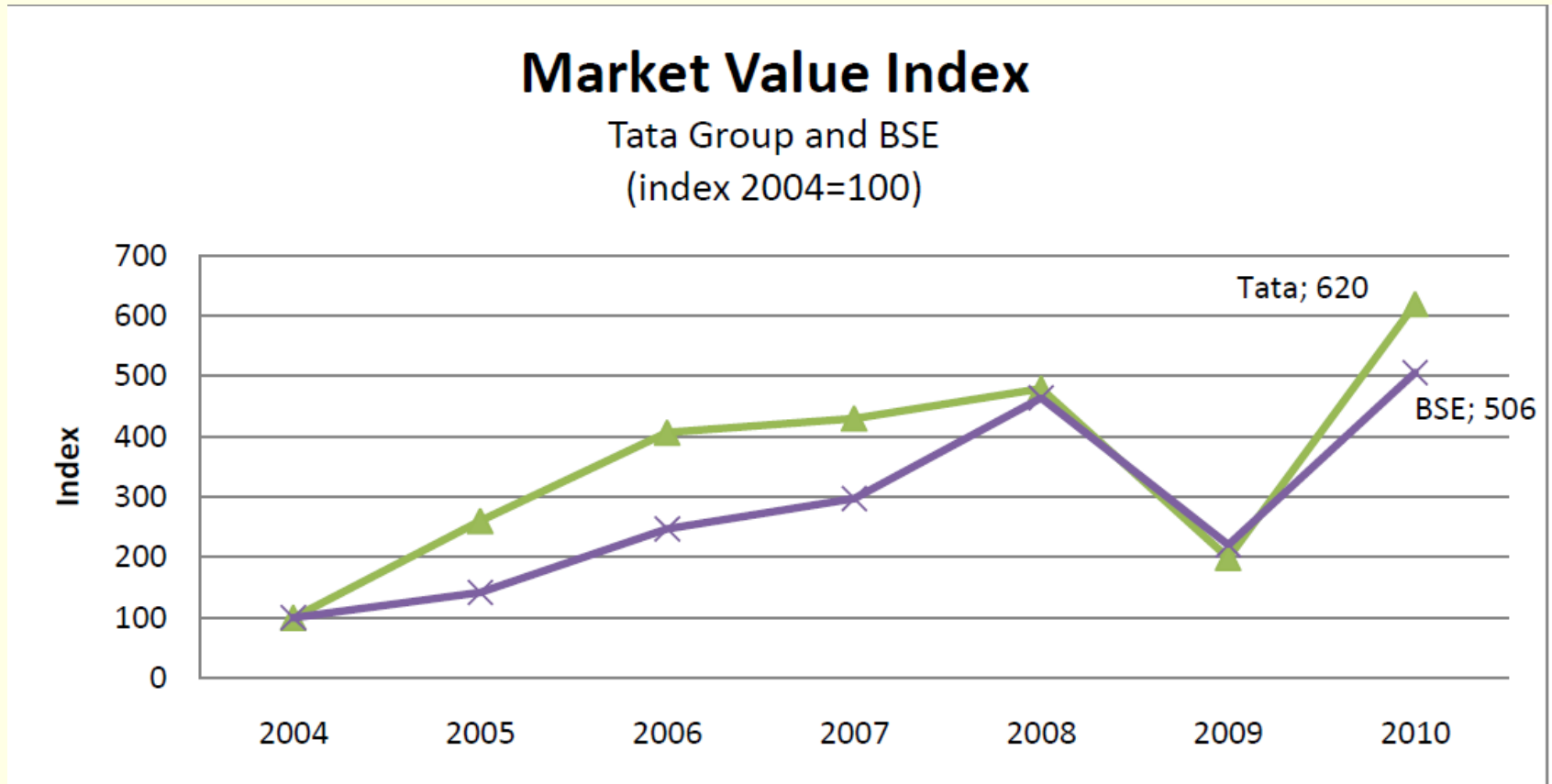


The Tata Group

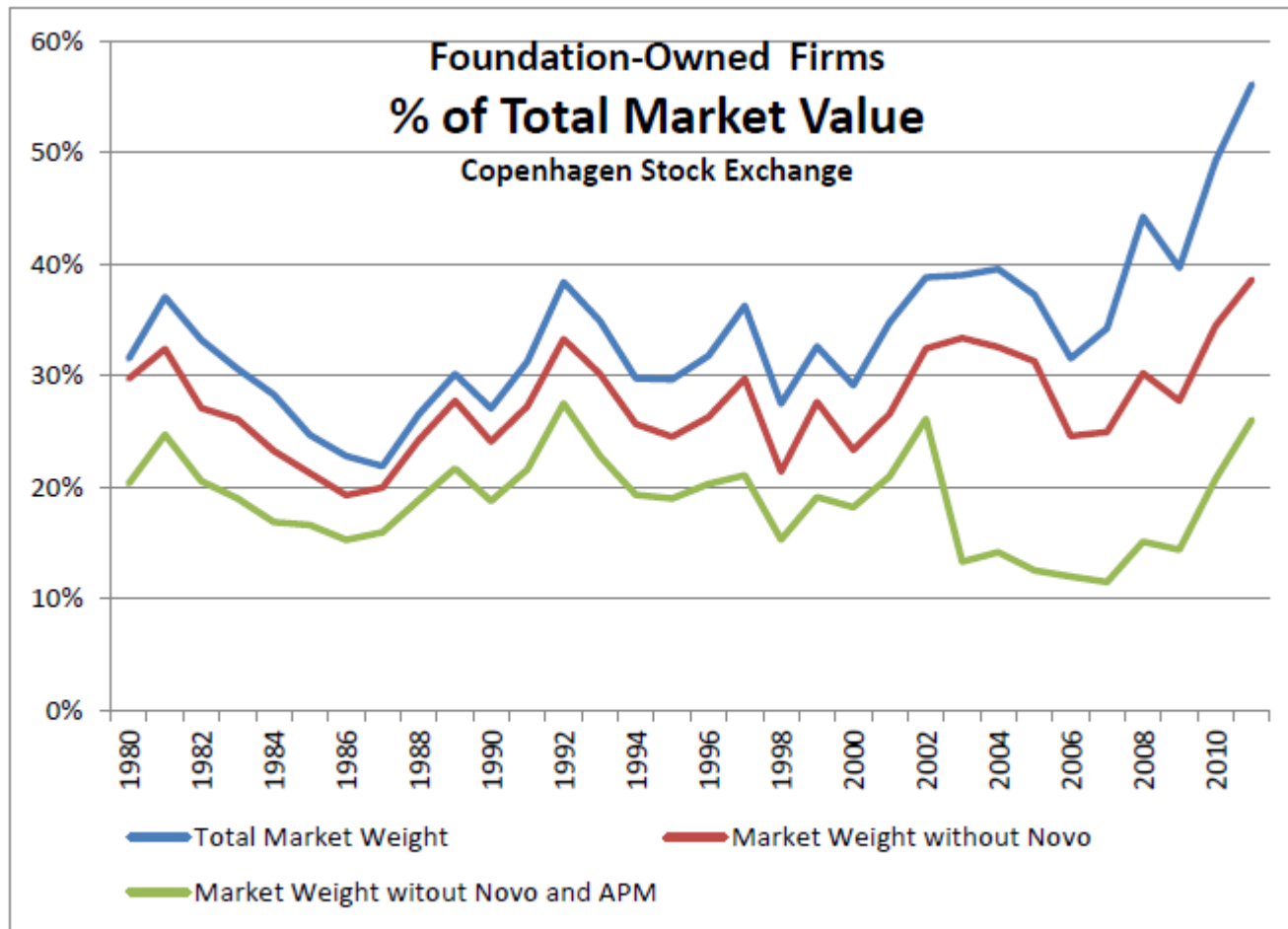
- India's largest
- Market value > \$100 Bill
- 400.000+ Employees
- 80 + operating companies
- 28 publicly listed
- High CSR profile
- Code of conduct
- Zero corruption tolerance
- => Owned 66% by charitable trusts !



Strong Financial Performance

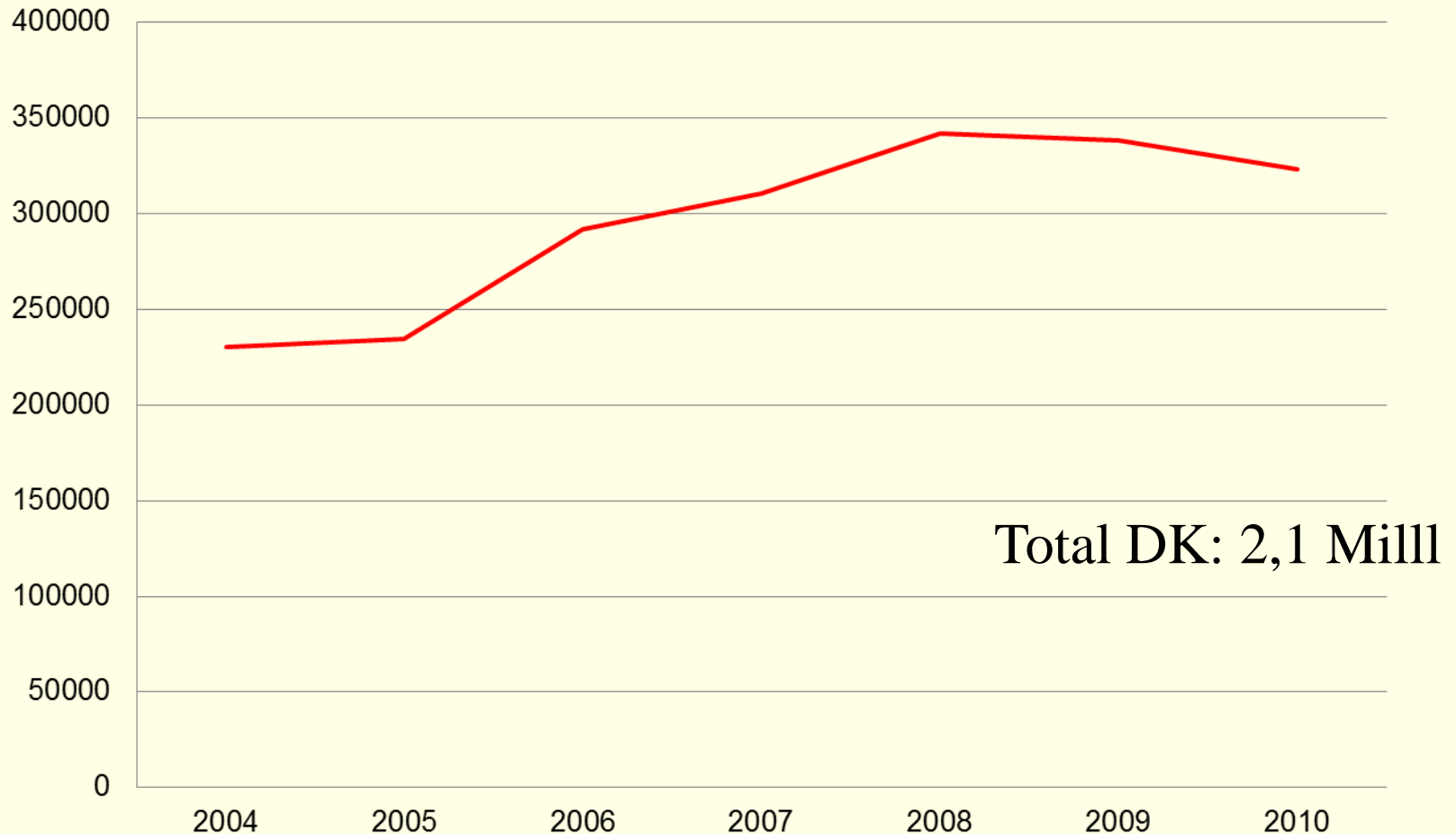


Denmark

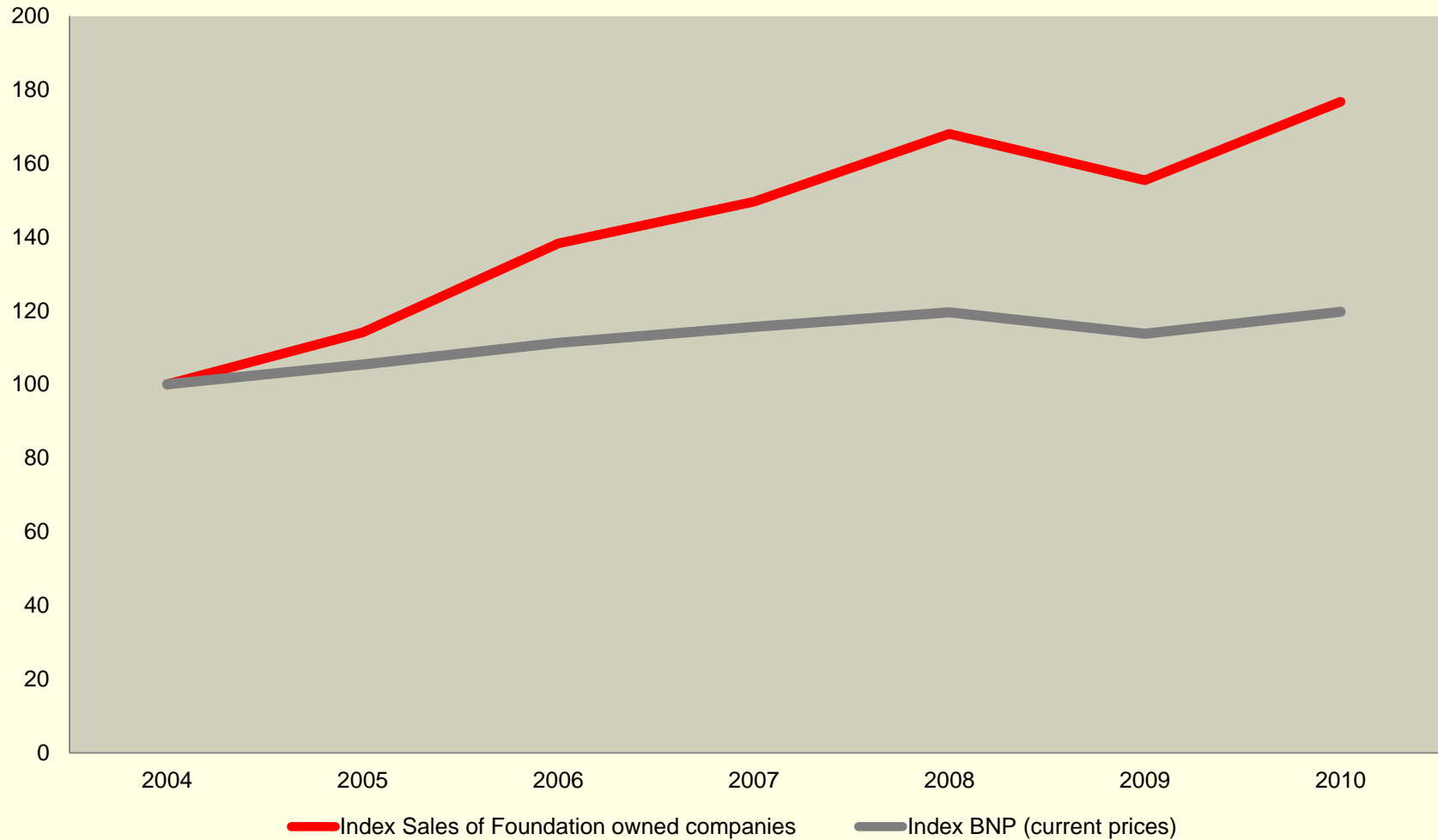


Denmark

100 largest Foundation-Owned Companies Total Employment



Sales Growth



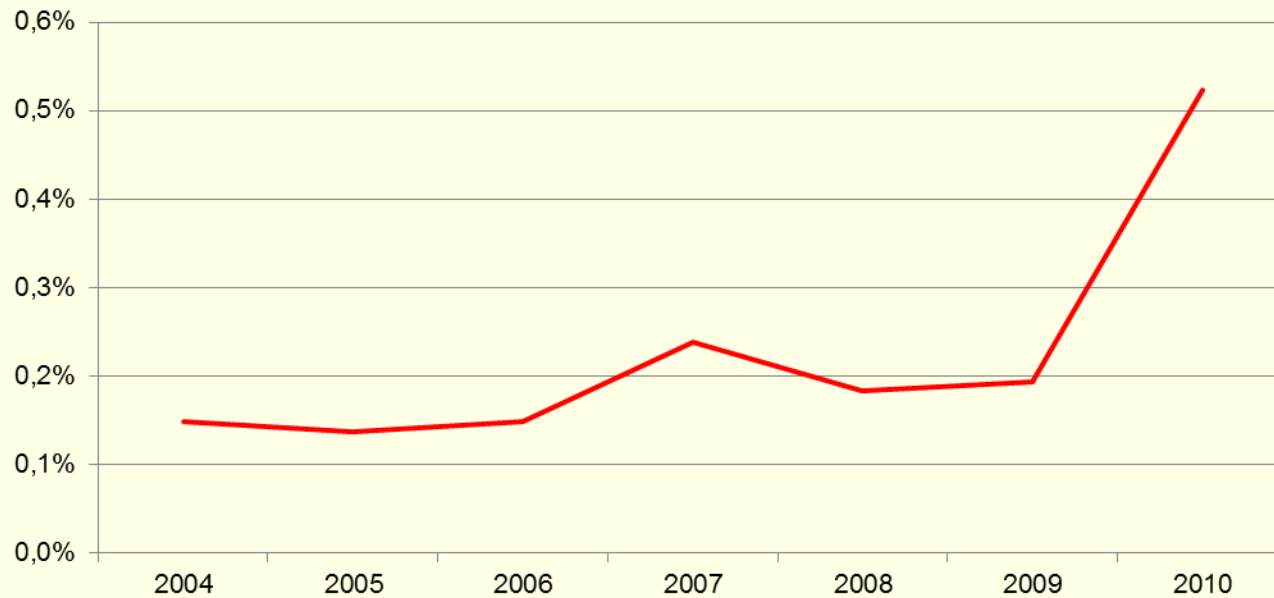
Denmark: Research

R&D in 19 large foundation-owned firms

Bill DKK	24.1
% of total Danish R&D	43,4%

Denmark: Donations

100 largest Industrial Foundations
Donations % of GNP



Performance: Relevant theory

- Agency theory
- Commercial nonprofits
 - charity model
 - workers' cooperative
 - Non-contractible quality
- Family firms (holding company)



Hypotheses

- Foundation-owned companies should underperform
 - no personal profit motive
 - limited risk diversification
 - closed markets for corporate control
 - non-profit objectives
 - managerial capture
- Possible benefits of longtermism, social responsibility etc



Previous Research

- Thomsen (1996): Foundation-owned companies perform as well as investor- or family owned companies 1992-2002
- Thomsen (1999): Good performance not attributable to taxation, monopoly, creditors..
- Hermann and Franke (2002): They also perform well in Germany
- Rose og Thomsen (2004): No difference in risk stock returns or Q
- Thomsen (2005): Foundation-owned companies better reputations
- Thomsen (2006): why not in the US?
- Hannsmann & Thomsen (2010): Governance (distance) enhances the performance of foundation-owned firms



Table 5. Foundation Ownership and Return on Assets (ROA)
 (t-tests for differences in means with uneven variance)

Full sample 1995-2009	Mean	Std deviation	N
Non foundation-owned	2.4	19.0	9,155
Foundation-owned	6.2***	9.5***	1,004
Total	2.8	17.09	10,159
Same Industries 1995-2009	Mean	Std deviation	N
Non foundation-owned	2.9	19.0	2,912
Foundation-owned	6.5***	9.7***	864
Total	3.7	17.4	3,776
Listed companies 1995-2009	Mean	Std deviation	N
Non foundation-owned	2.4	11.5	9,155
Foundation-owned	10.2***	9.1***	408
Total	2.91	18.7	9,563

*= significant at 10% level, **=significant at 5% level, ***=significant at 1% level (t-tests, unequal variance).

Performance of Foundation-Owned Companies

Findings

- ROA \geq
- Lower volatility (risk)
- Lower growth
- Better performance if well consolidated and in R&D intensive industries

Alternative Theories

- Low powered incentives
Identification (Akerlof), Charity,
Reputation, status, Small worlds
- Governance
Distance between owner (foundation) and
company: board separation, listing, other
owners, other companies
- Selection effects
Does foundation ownership preserve good
(high ROA) companies from takeover?

Delistings from Nordic Stock Exchanges 1996-2004

	Average ROA
Survivors (not delisted)	1.9
Éxits (Delisted)	3.0'

Governance

- New Concept: **Governance distance**
Distance between owner and company
- Here applied to foundations and their companies
- But also relevant for family firms, state owned enterprises, private equity funds...

Governance distance

a ————— b

- Separating ownership and management
- The foundation as a separate entity
board, ownership, location, administration,
funds, objectives
- => Alternative use of funds...
- => Independent board
- => Administrative resources

Hypotheses

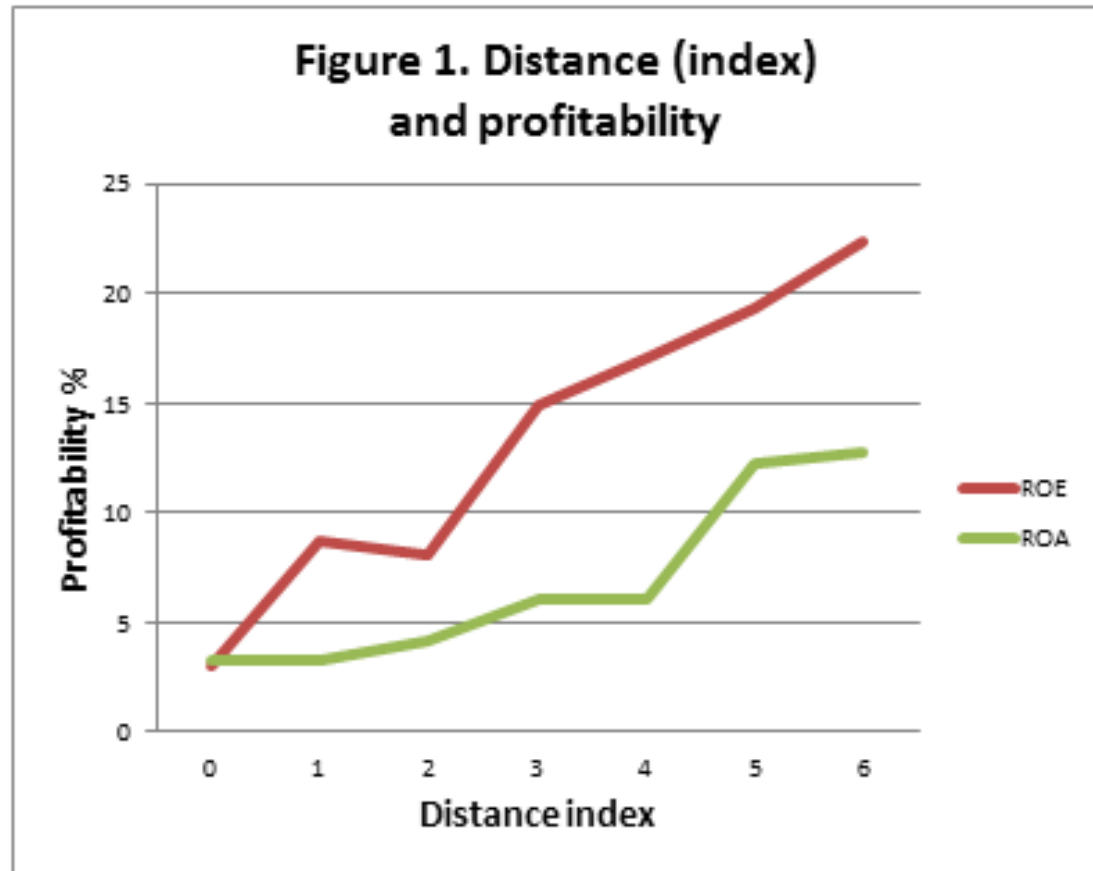
- 1. The greater distance the better performance
- **2. Non-monotonicity:** For extreme levels of distance, company performance may deteriorate owing to lack of information of foundation board





	Return on equity %	Return on assets %	Growth %	N (Firm years)
Foundation share of company board				
>25%	8.2	5.8	9.5	395
≤ 25%	18.9***	10.0**	7.5 ns	154
Foundation ownership of the company				
100%	9.2	5.2	9.3	322
<100%	14.1**	9.6***	8.3 ns	227
Company publicly listed				
Unlisted	9.1	5.6	9.1	476
Listed	22.2 ***	12.2***	7.5 ns	70
Foundation owns more than one company				
One company	8.4	6.2	9.1	401
More companies	17.4***	7.2	8.1 ns	145
Foundation = company address				
Same address	9.8	5.4	8.7	410
Different address	13.8 ns	9.5**	9.1 ns	135

Distance and Performance of Foundation-Owned Firms



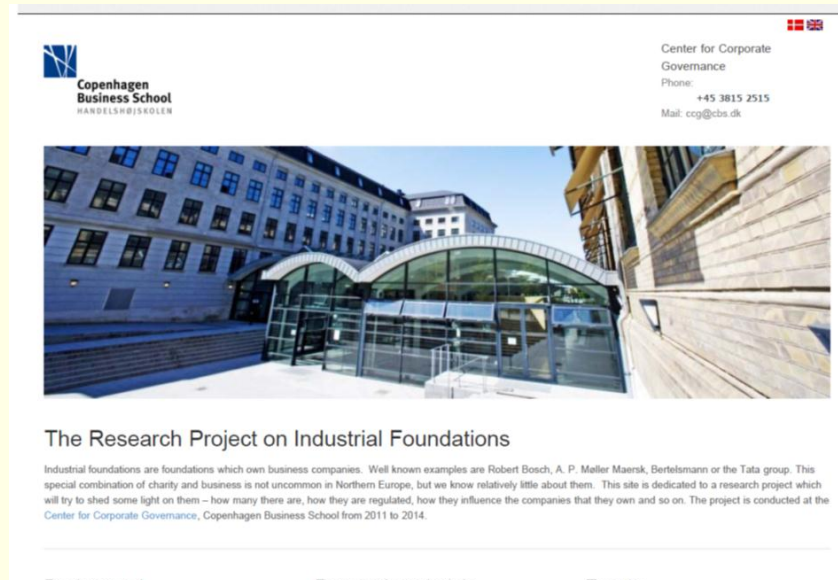
Summary

- Foundation ownership matters
- Foundation-owned firm perform well
- Governance (distance) is important

More Information

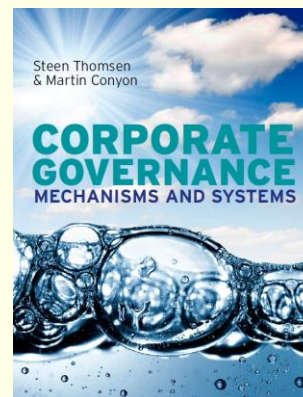
The Research Project on Industrial Foundations

www.tifp.dk



The screenshot shows a website page with the following elements:

- Logo:** Copenhagen Business School HARDELSRØRSKOLEN
- Contact Info:** Center for Corporate Governance, Phone: +45 3815 2515, Mail: ccg@cbs.dk
- Image:** A photograph of a modern building with a glass and metal entrance.
- Section Header:** The Research Project on Industrial Foundations
- Text:** Industrial foundations are foundations which own business companies. Well known examples are Robert Bosch, A. P. Møller Maersk, Bertelsmann or the Tata group. This special combination of charity and business is not uncommon in Northern Europe, but we know relatively little about them. This site is dedicated to a research project which will try to shed some light on them – how many there are, how they are regulated, how they influence the companies that they own and so on. The project is conducted at the Center for Corporate Governance, Copenhagen Business School from 2011 to 2014.
- Navigation:** Background, Research materials, Events



Thanks!