French Connection: Interlocking Directorates and the ownership-control nexus in an insider governance system

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Chaire FDIRE

1. Problématique du papier

- **Context**:

1) Concentration of ownership in most countries.

LLS (1999), Claessens et al. (2000), Faccio and Lang (2002), Holderness (2009).

→ Ownership give *control rights* to shareholders when they hold 20% or 10% of voting rights.

2) Nevertheless, **among the largest firms, the percentage of equity needed to actually control them is lower** than these conventional thresholds (controlling coalition).

→ Exploring to what extent a multiplicity of minority shareholdings conveys decision-making authority to its respective holders is a crucial question to understand how corporations are controlled by their owners.

- **Aim & contribution:**

The aim of this paper is to assess whether there is a separation of ownership and control not only for the largest blockholders but also for multiple small owners of a company.

→ Ownership & control : a relation between ownership and the acquisition of *decision rights*, i.e., an ability to affect the course of action of a firm through membership of the board of directors (theories about control rights: Tirole 2006, Gibbons 2005, Hart 1995).

Contrôle des sociétés par actions?

- Logique du contrôle : Actionnaires → élisent les administrateurs (sauf ceux qui représentent les salariés)→ choisissent les dirigeants exécutifs
- Soit les administrateurs sont indépendants et ils sont choisis pour leurs compétences et leur impartialité supposée, soit ils représentent certains stakeholders et dans ce cas il faut se demander lesquels et comment ils parviennent à se faire représenter au CA.
  - A) La thèse de l'élite des administrateurs/dirigeants contre la thèse du contrôle actionnarial (question de la réalité de la séparation propriété/contrôle)
  - B) La thèse du contrôle par les blockholders-insiders contre la thèse du contrôle actionnarial pur (contrôle dans les mains d'actionnaires dispersés et mobiles de type investisseurs institutionnels)
- Difficulté de savoir quels intérêts représentent les administrateurs:
  - Les « indépendants » ne sont pas sensés représenter des intérêts par définition
  - Un administrateur n'est jamais le représentant officiel d'un intérêt (sauf administrateurs représentant les salariés). Donc le lien actionnariat→administration/contrôle n'a été mis en évidence empiriquement que pour certains types d'administrateurs dont l'affiliation est évidente :
    - détention de blocks d'actions par des banques, des managers, des familles => ils sont représentés au CA
- Nos idées:
  - Pour tester A) il faut corréler liens de contrôle (interlocks) et liens de propriété pour évaluer de manière systématique les relations entre structure de l'actionnariat et structure du board; plus précisément il faut regarder si les interlocks s'expliquent mieux par les liens de propriété que par les déterminants traditionnels (compétences, etc.)
  - On peut ainsi s'intéresser à tous les actionnaires et tous les administrateurs plutôt que de se concentrer seulement sur les détenteurs de gros blocks et sur les administrateurs d'un certain type (banquiers, managers, familles) : permet de tester B)

2. Literature and contributions

- Minority controlling shareholders; Multiple (large) shareholders

  Zwiebel, 1995; Pagano and Röell, 1998; Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001; Gomes and Novaes, 2005; Dhillon and Rossetto, 2009. For empirical evidence see Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig *et al.*, 2008, 2009.

- Ownership-Board structures link, especially between financial and non financial corporations

  Denis and Sarin (1999); Mak and Li (2001); Booth et al. (2002); Morck and Nakamura (1999); Nibler (2000); Gorton and Schmidt (2000); Franks and Mayer (2001); Santos and Rumble (2006); Dittmann and Maug (2010).

- Interlocking directorates

  Stuart and Yim (2010);Cai and Sevilir (2012); Bouwman (2011); Bizjak et al. (2009); Hwang and Kim (2009); Fich and White (2005); Hallock (1997); Robinson and Stuart (2007); Lindsey (2008); Khanna and Thomas (2009); Bohman (2012).

To our knowledge this paper is the first study of the relationship between direct ownership ties among corporations and overlapping directors between them.

Le contexte français

- Déclarations obligatoires de franchissement de seuil et d'intention à 5%, 10%, 15%,…, 30% (OPA obligatoire), 33,33 %, 50 %, 66,66 %, 90 % et 95 %. (Articles 233 du code du commerce et règlement général de l'AMF)
- Loi Warsmann du 22/03/2012 : Intégration des dérivés à dénouement en cash pour le calcul des seuils (suite affaires LVMH-Hermès et Wendel-St Gobain).
- Groupe de travail AMF (2008), Bernard Field.
- Proposition de loi Marini (2011) : Le projet d'une déclaration obligatoire au seuil de 3% a été abandonné…
- Repose sur l'idée (fausse?) que rien ne se passe en termes de prise de contrôle/changement de stratégie pour des seuils inférieurs: ***nous montrons le contraire.***

Normes et cadre juridique des administrateurs

- Normes :
  - Rapports Viénot/Bouton, normes AFEP-MEDEF:
    - « Indépendance » des administrateurs
    - « Indépendants » devraient représenter au moins 50% du CA
  - L'administrateur indépendant ne peut :
    - - Etre salarié ou mandataire de la société, tout comme **il ne peut être administrateur d'un actionnaire qui détient le contrôle seul ou de concert, de la société**. (1)
    - - Etre mandataire social d'une société dans laquelle la société détient un mandat d'administrateur
    - - Etre client, fournisseur, banquier d'affaire ou de financement, de la société.
    - - Avoir un lien familial proche avec un dirigeant de la société.
    - - Avoir participé à l'audit de la société au cours des cinq années précédentes.
    - - Avoir été dirigeant de la société ou d'une société du groupe au cours des cinq années précédentes,
    - - Etre administrateur depuis plus de douze ans
    - - Recevoir une rémunération supplémentaire en dehors des jetons de présence de la part de la société.

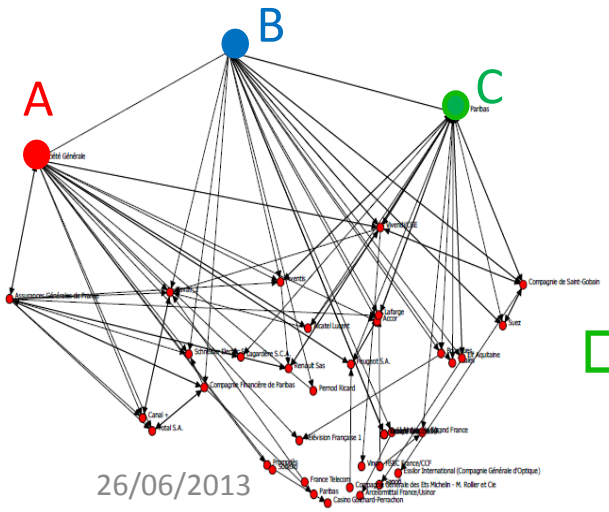
- Lois :
  - 5 mandats maximum (5 réunions par an au moins)
  - loi Copé-Zimmermann : parité F/H 40/60 à l'horizon 2017
  - Taille CA : min 3 max 18
  - Age max administrateur : 68 ans
  - Au moins un administrateur représentant les salariés
- *En synthèse : quid de la régulation des interlocks?*
  - *la limite du nombre de mandats évoquée ci-dessus n'est pas une garantie d'indépendance, loin de là.*
  - *Tous les administrateurs interlockés ent*re des sociétés ayant des liens actionnariaux, ceux que l'on étudie dans le papier, ne peuvent pas être indépendants

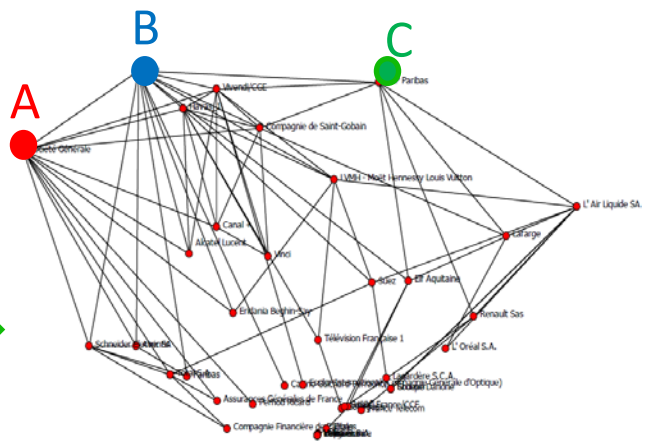
3. Strategy of this paper

- Correlation between ownership structure and board structure.
- Public companies use their directors as delegates to other companies' boards (controlling or monitoring ties) → correlation with ownership ties.
- Relevant approach for insider governance systems (Morin, 2000 ; Franks and Mayer, 1997, 2001, 2012).

Ownership ties			
	A	B	C
A		20%	
B			4%
C			

Overlapping directors			
	A	B	C
A		2	
B			1
C			





Observations:

Dyads

i.e. pairs of firms:

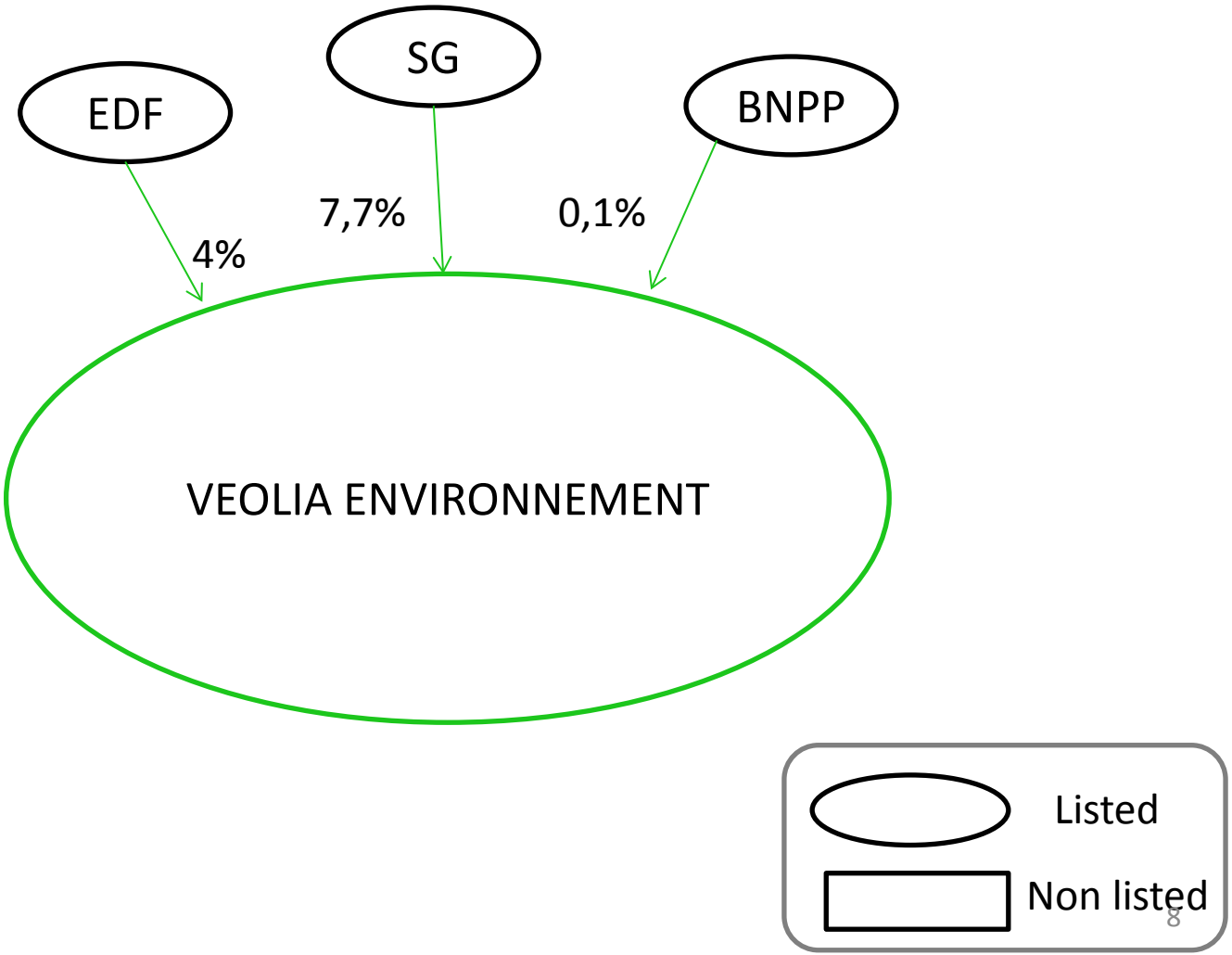
1. A ● ● B
2. A ● ● C
3. B ● ● C

n corporations

N dyads = *n*.(*n*-1)/2

3. Strategy of this paper: Ownership Structure and Board Structure

VEOLIA 31/12/2011



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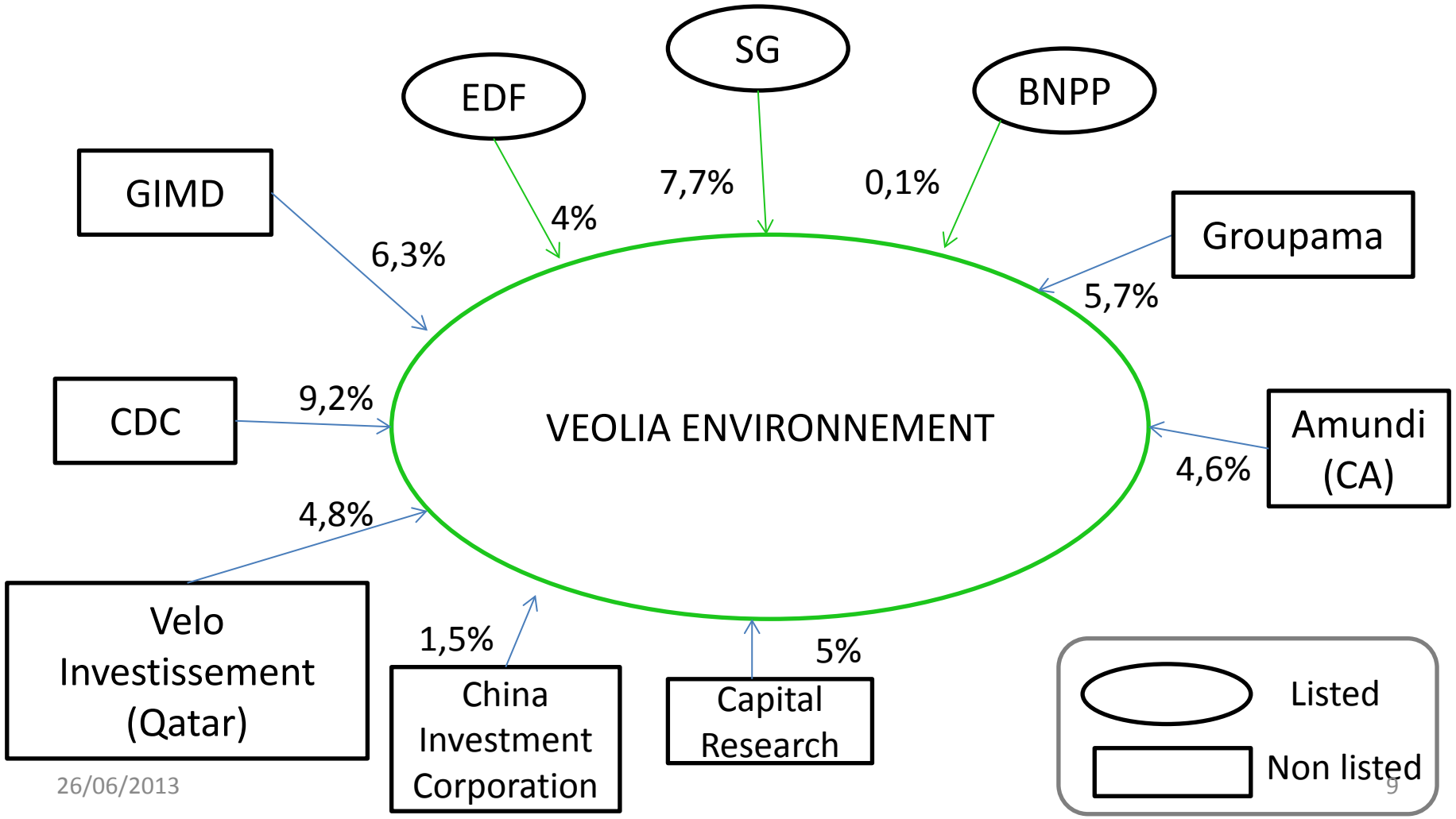

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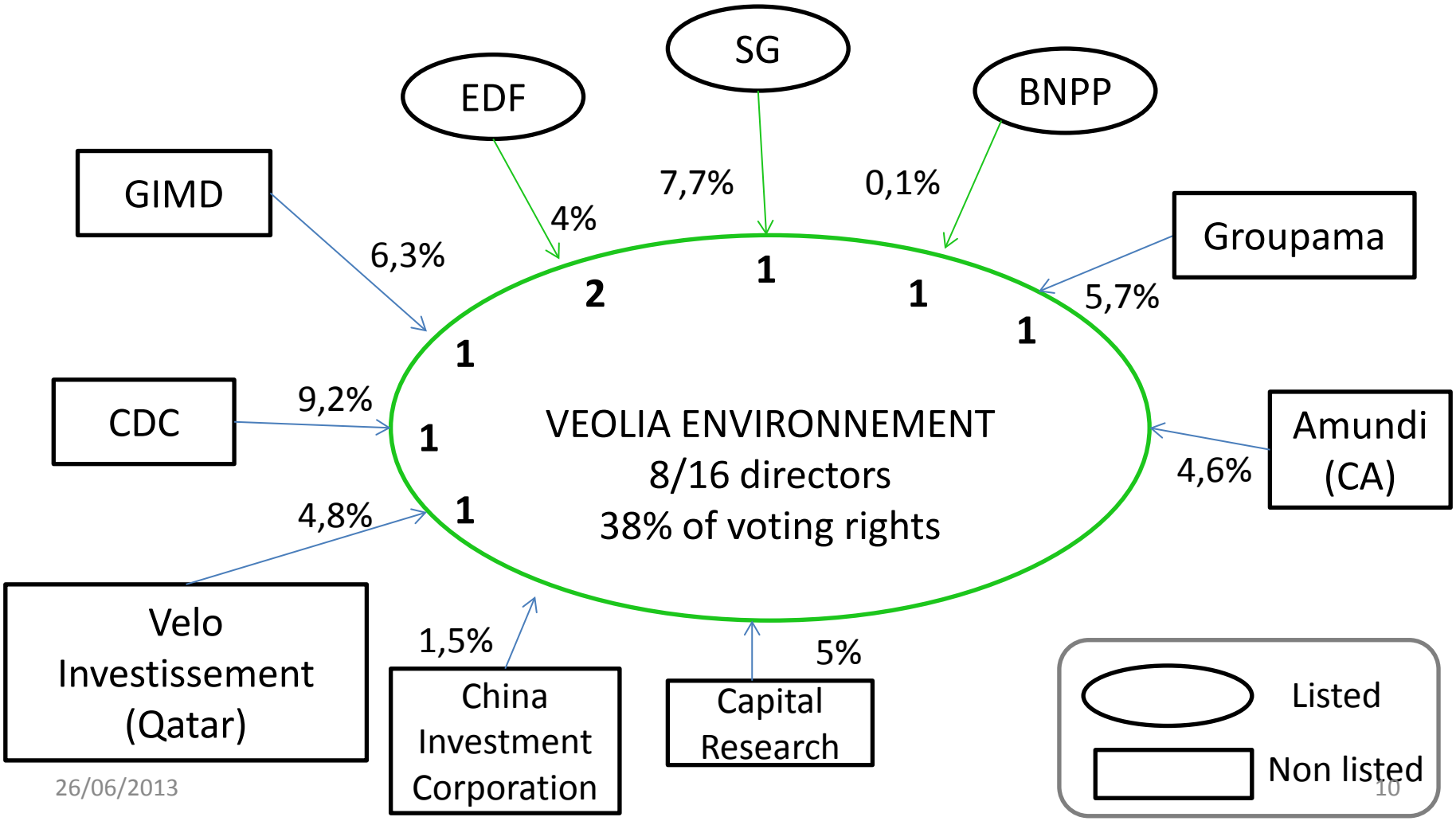

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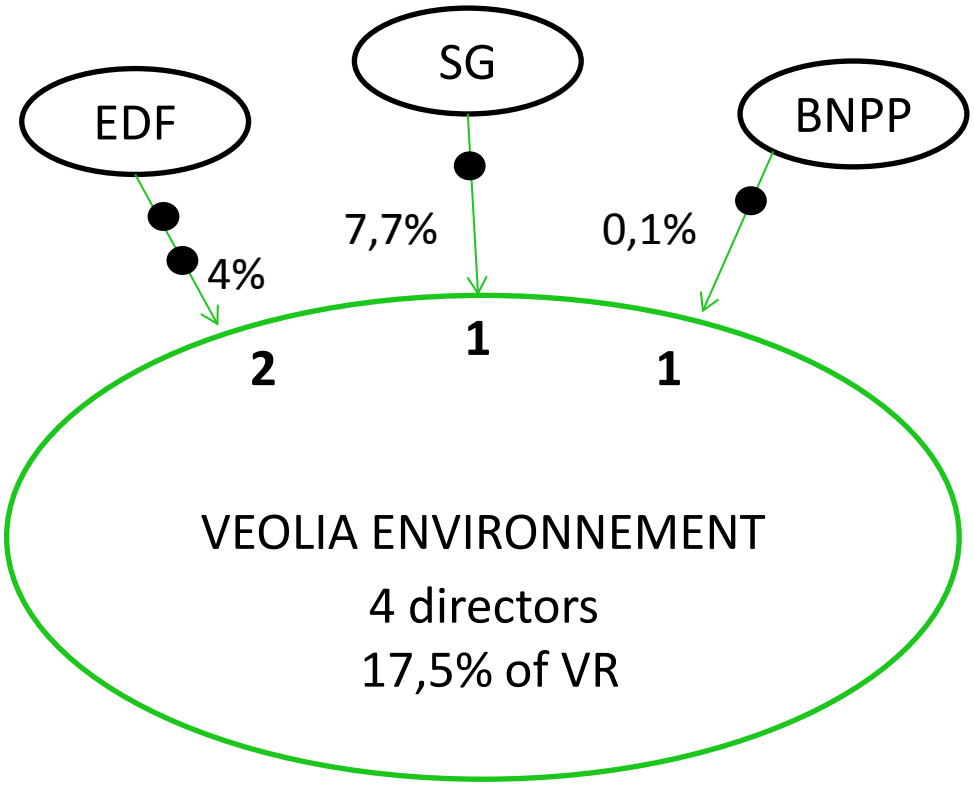
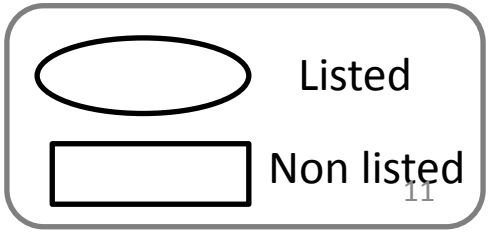




Proposition 1

- **PROPOSITION 1**: *the most influential determinants of the formation of interlocking directorates are ownership linkages because unique or multiple shareowners are able to influence board selection and appoint directors who will act on their behalf either to control board decisions or to monitor managers and other directors*.

  → *Consequently*:

i) frequency of interlocking directorates should be more strongly correlated with ownership linkages than with any other factor;

ii) even ownership linkages generated by small shareholdings could produce interlocking directorates either because the market capitalization is large or because the owner's stake is part of a shareholders coalition;

iii) the higher the shareholdings between two firms, the higher will be the odds of having at least one interlocking directorate between the owner firm and the owned firm.

Proposition 2

- **PROPOSITION 2**: *i) Some shareowners are not satisfied by simple monitoring power; they want control power. ii) This power relies more strongly on ownership linkages than monitoring power. iii) This power depends more strongly on ownership lock-in devices than on unilateral ownership linkages.*

  → *Consequently :*

i) The frequency of multiple board interlocks will be significantly correlated with ownership linkages if (*i*) is true.

ii) The frequency of multiple board interlocks will be more strongly correlated to ownership linkages than the frequency of single interlocks if (*ii*) is true.

iii) Unilateral stakes and cross-shareholdings between corporations should increase the odds of having multiple interlocking directorates, with the latter effect being greater than the former if (*iii*) is true.

4. Data

- Sample of listed companies of the CAC40 index:
  - Unbalanced panel of 61 corporations on the overall period (1997-2006): 507 firms-observations (≈50 firms/year) and 12611 dyad.
  - 11 financial corporations & and 50 non financial corporations
- Data on ownership structures and boards: annual reports, Thomson one banker ownership (TOBO), Dafsaliens, AMF:
  - CFR, VR, Ultimate ownership structure
  - More than 1100 directors

Table 1: Annual frequency of corporations in the sample

Number of years in the sample	10	9	8	7	6	5	4	3	2	1	Total corp. or dyad	Total obs.
Number of corporations that belong to the CAC40 index at least one quarter during 1997-2006	41	1	4	2	2	0	2	5	3	1	**61**	**507**
Number of dyads	820	41	170	89	94	4	96	235	159	68	**1776**	**12611**

Evolution of main dyadic variables

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
***n* corporations**	50	51	54	51	52	52	50	49	49	49	**507**
***N* dyads**=*n*.(*n*-1)/2	1225	1275	1431	1275	1326	1326	1225	1176	1176	1176	**12611**
Number of interlocking directorates (in % of dyads in italic)											
1 interlock	178	191	214	198	175	171	158	157	152	131	**1725**
	14.5	*14.98*	*14.95*	*15.53*	*13.2*	*12.9*	*12.9*	*13.35*	*12.93*	*11.14*	***13.68***
At least 2 interlocks	77	59	60	56	43	37	35	32	25	26	**450**
	6.29	*4.63*	*4.19*	*4.39*	*3.24*	*2.79*	*2.86*	*2.72*	*2.13*	*2.21*	***3.57***
Number of ownership ties (in % of dyads in italic)											
Unilateral ownership	60	57	67	58	68	60	58	54	47	31	**560**
	4.90	*4.47*	*4.68*	*4.55*	*5.13*	*4.52*	*4.73*	*4.59*	*4.00*	*2.64*	***4.44***
Cross-ownership	17	14	8	8	3	3	3	3	2	2	**63**
	1.39	*1.10*	*0.56*	*0.63*	*0.23*	*0.23*	*0.24*	*0.26*	*0.17*	*0.17*	***0.50***

Multiple Blockholders & Interlocks

	INTERLOCKS			
Rank of shareholding	0	1	2+	Nb of ownership ties
1	31	26	61	118
2	49	42	36	127
3	59	38	36	133
4	60	32	34	126
5	43	15	25	83
6+	49	25	25	99
Total	291	178	217	686
		26%	32%	
	42%	58%		

5. Variables & Method

- Dyads: relationships between corporations *i* and *j*
- The dependant variable has 3 outcomes:
  - 0: *i* and *j* have none interlock (the base category)
  - 1: *i* and *j* have 1 interlock
  - 2: *i* and *j* have at least 2 interlocks
- Multinomial logistic regressions → odds ratios
- Main independent variables:
  - DU_UNIL_VR = 1 if there is a unilateral ownership tie between *i* & *j*
  - DU_UNIL_SUP20_VR =1 if unilateral ownership tie ≥ 20%
  - DU_UNIL_INF20_VR = 1 if unilateral ownership tie < 20%
  - DU_CROSS_VR = 1 if there is a cross-ownership tie between *i* & *j*
  - %_UNIL_VR & %_CROSS_VR

Variables

Variable	Mean	Std. Dev.	Min	Max	Expected sign
INTERLOCKS	0.208	0.486	0	2	
DU_UNIL_VR	0.044	0.206	0	1	+
DU_UNIL_SUP20_VR	0.005	0.071	0	1	+
DU_UNIL_INF20_VR	0.039	0.195	0	1	+
DU_CROSS_VR	0.005	0.071	0	1	+
IDEMOWNER	0.223	0.503	0	5	+
DU_STATE	0.191	0.393	0	1	+
C1MEAN	28.969	16.424	0.670	95.910	-
DU_FIN1	0.231	0.422	0	1	+/-
DU_FIN2	0.015	0.121	0	1	+
DU_IDEMSIC	0.031	0.174	0	1	+
BOARDSIZE	26.889	5.110	9	45	+
DU_NODUALITY	0.114	0.318	0	1	+
DEGREE*it*	11.2	8.145	0	48	+
DEGREE*jt*	11.235	8.261	0	48	+
AVDEGREE*i*	11.2	6.955	0	48	+
AVDEGREE*j*	11.235	6.964	0	42	+
DISTANCETOCAC	0.299	0.290	0	0.900	-
Observations N = 12611 dyads-years ; 1776 firm dyads					

6. Results

SUP-INF α cutoff	(1) All		(2) 20%		(4) 5%		(5) 2%	
INTERLOCKS	1	2	1	2	1	2	1	2
DU_UNIL_VR	2.346***	11.892***						
	(0.527)	(3.873)						
DU_CROSS_VR	5.739***	85.342***	5.547***	73.619***	5.518***	76.887***	5.637***	80.694***
	(3.831)	(64.740)	(3.662)	(54.819)	(3.631)	(57.463)	(3.739)	(60.685)
DU_UNIL_SUP_VR			14.464***	96.136***	9.980***	44.507***	3.644***	20.056***
			(7.574)	(68.386)	(4.520)	(25.503)	(1.167)	(7.954)
DU_UNIL_INF_VR			1.869***	7.717***	1.545*	7.312***	1.625*	6.699***
			(0.433)	(2.349)	(0.361)	(2.309)	(0.405)	(2.416)
IDEMOWNER	1.223**	1.533***	1.227**	1.546***	1.219**	1.526***	1.221**	1.525***
	(0.108)	(0.240)	(0.109)	(0.242)	(0.109)	(0.240)	(0.108)	(0.241)
BOARDSIZE	1.027**	1.015	1.028**	1.019	1.027**	1.017	1.027**	1.016
	(0.013)	(0.027)	(0.013)	(0.027)	(0.013)	(0.027)	(0.013)	(0.027)
DU_FIN1	0.720**	0.312***	0.755**	0.379***	0.765*	0.363***	0.732**	0.339***
	(0.103)	(0.095)	(0.108)	(0.107)	(0.108)	(0.104)	(0.104)	(0.100)
DISTANCETOCAC	0.596**	0.448*	0.583**	0.392**	0.586**	0.421*	0.586**	0.408**
	(0.136)	(0.200)	(0.133)	(0.182)	(0.134)	(0.191)	(0.134)	(0.185)
DEGREEit	1.098***	1.106***	1.099***	1.106***	1.099***	1.106***	1.098***	1.104***
	(0.011)	(0.019)	(0.011)	(0.019)	(0.011)	(0.019)	(0.011)	(0.019)
Log pseudolikelihood	-5660.00		-5637.99		-5633.90		-5649.53	
[1]Small-Hsiao IIA test	ok		ok		ok		ok	
WALD Tests								
[2]UNIL vs. CROSS	1.81	7.24***						
[3]UNIL: o1 vs. o2		27.49***						
[4]CROSS: o1 vs. o2		26.57***						
[5]UNIL ≥ α vs. UNIL < α			13.92***	11.22***	14.15***	8.84***	5.01**	6.40**
[6]UNIL ≥ α: o1 vs. o2				8.53***		9.35***		21.01***
[7]UNIL < α: o1 vs. o2				25.86***		28.46***		17.79***

Proposition 1. point i) & Proposition 2. point i)

Proposition 1. point ii)

Proposition 2. point iii)

Proposition 1. point iii)

Proposition 2. point ii)

7. Robustness checks

- **Robustness check 1**: are the results driven by CEOs interlocks?

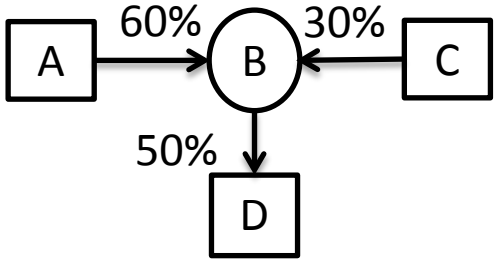
SUP-INF α cutoff	(1) All		(2) 20%		(3) 10%		(4) 5%		(5) 2%	
INTERLOCKS (no CEOs)	1	2	1	2	1	2	1	2	1	2
DU_UNIL	1.905***	7.133***								
	(0.438)	(1.982)								
DU_CROSS	0.512	1.377	0.498	1.298	0.498	1.347	0.504	1.349	0.510	1.361
	(0.478)	(1.378)	(0.464)	(1.288)	(0.463)	(1.346)	(0.467)	(1.346)	(0.475)	(1.355)
DU_UNIL_SUP			5.950***	20.957***	5.846***	12.762***	4.811***	12.523***	2.526***	9.369***
			(3.948)	(13.948)	(3.483)	(7.269)	(2.425)	(6.772)	(0.856)	(3.272)
DU_UNIL_INF			1.605**	5.708***	1.498*	6.275***	1.405	5.878***	1.491	5.370***
			(0.378)	(1.747)	(0.353)	(1.958)	(0.332)	(1.860)	(0.378)	(1.959)
IDEMOWNER	1.187*	1.330*	1.190**	1.336*	1.191**	1.328*	1.185*	1.326*	1.186*	1.327*
	(0.105)	(0.226)	(0.105)	(0.226)	(0.105)	(0.225)	(0.105)	(0.225)	(0.105)	(0.226)
DU_STATE	1.418***	1.636*	1.421***	1.640*	1.422***	1.636*	1.429***	1.642*	1.420***	1.635*

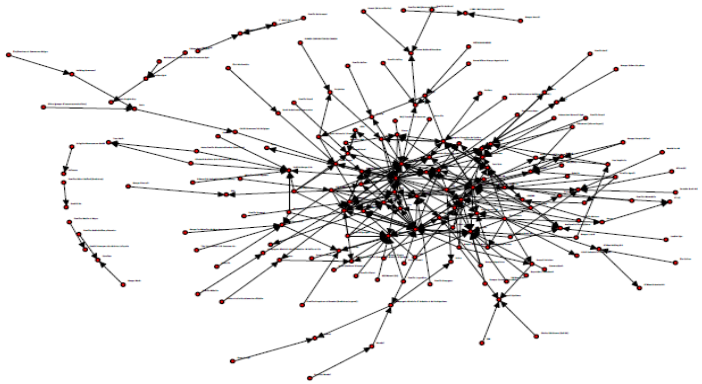
Robustness checks

- **Robustness check 2**: varying the measures of ownership linkages

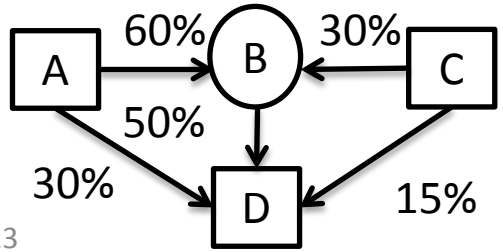
  → *direct & indirect ownership ties among the entire ownership structure* (3174 shareholdings across 249 entities) : UNIL (from 560 to 714); CROSS (from 63 to 84)

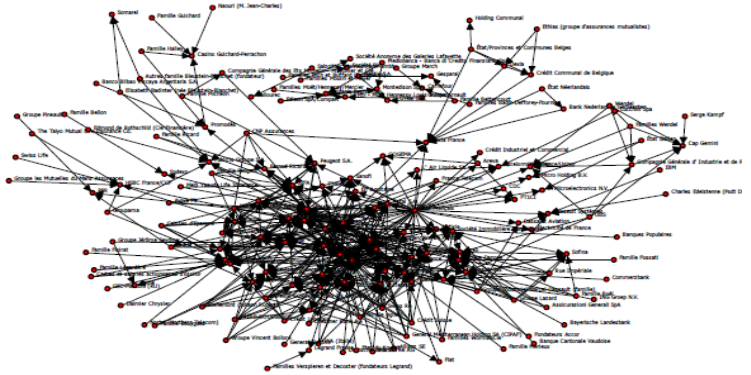
Direct ownership





Direct & Indirect ownership





Robustness check : causality → endogeneity

- **Robustness check 3**: causality between ownership and board ties.
  - DU_UNIL_VR & DU_CROSS_VR lagged by 1 and 3 years : factor changes are still significant but are lower than the contemporaneous effect.
    - → Partial inversion of the contemporaneous causality ?
  - Instrumented versions of multinomial logit regressions → Two instrumental variables techniques :
    - → Two-stage predictor substitution (2SPS)
    - → Two-stage residual inclusion (2SRI) recommended by Terza *et al*. 2008.
  - Instruments : 3 year lagged (t_{-3}) value and one year lagged differentiated value ($t_{-2} - t_{-1}$) of %_UNIL_CFR & %_CROSS_CFR
    - → Instruments are not weak
    - → Instruments are valid (over-identifying restrictions test)

→ Results are not endogenous (residuals not significant).

	(1) instrumentation	(2) Endogeneity test		(3) Overidentification test	
Dependent variable	DU_CROSS_CFR1	INTERLOCKS		INTERLOCKS	
		1	2	1	2
$DIFFCROSS\_CFR1_{t-1}$	24.306***			1.262	1.201
	(29.400)			(0.955)	(1.104)
$CROSS\_CFR1_{t-3}$	11.867***			1.434	2.159
	(6.955)			(1.138)	(1.976)
RESIDUALS		1.138	1.060	1.246	1.253
		(0.355)	(0.490)	(0.882)	(0.916)
DU_UNIL_CFR1		2.894***	9.197***	2.853***	8.454***
		(0.437)	(2.232)	(0.449)	(2.192)
DU_CROSS_CFR1		6.001	108.521***	2.382	9.605
		(6.590)	(103.951)	(7.162)	(34.145)
Observations	7578	7578		7578	
Number of clusters	1314	1314		1314	
Log pseudolikelihood	-47.711	-3313.185		-3309.606	
Small-Hsiao IIA test[1]		ok		ok	
WALD Tests					
[2]UNIL vs. CROSS		0.45	6.81***		
[3]UNIL: o1 vs. o2		18.56***			
[4]CROSS: o1 vs. o2		9.25***			
[5]Chi2 joint test				1.20	

Conclusions

- Original strategy: measuring the correlation between two networks (overlapping directors and ownership linkages). Strong correlation between ownership ties and human linkages among large French corporations. There is no separation of ownership and control.
- Even small shareholdings can explain interlocking directorates because they may belong to a controlling coalition.
- Stakes are taken in a control perspective rather than a monitoring purpose.
- Cross-ownership are a way to lock-in ownership and board structures and can be interpreted as a device for managerial entrenchment.
- Regulation: transparency; managerial autonomy.
- Prolongements: voir si nos administrateurs sont classés comme indépendants ou non et si les corrélations sont moins fortes pour les indépendants
- Si une bonne partie des administrateurs représentent les intérêts de blockholders:
  - - qui représentent ceux des petits actionnaires, de tous les stakeholders?
  - - ces administrateurs interlockés ne sont pas “indépendants” au sens des recommandations Viénot/Bouton.

Thank you !