22E00500 Corporate Governance – Group report

Concentrated ownership

Karla Helenius

Senni Lehtinen

Annika Leino

Oona Yrjölä

Table of Contents

1. Introduction

In this paper, we discuss the topic of concentrated ownership and its advantages and disadvantages through reviewing literature on the subject as well as reflecting it on selected real-life case companies. First, we define concentrated ownership and the various forms in which it occurs, as well as identify the major trends and recent developments regarding ownership concentration. Second, we focus on the benefits of concentrated ownership, and the differences between various types of concentrated ownership. Third, we discuss the potential disadvantages of concentrated ownership and touch on the possibilities for trying to navigate the adverse effects. Finally, we apply our research and analyse two case companies, Finnair and Kone, on their ownership structure and its implications. To narrow the focus of this report, we mainly discuss these matters in the light of corporate performance and shareholder value creation. It however is important to notice that concentrated ownership has impacts to other stakeholders and society as well.

2. Overview of concentrated ownership

As to many academic subjects, there is no established definition on concentrated ownership. In their 2015 paper, Hamadi and Heinen state that the literature generally considers concentrated ownership with the largest shareholders owning more than 10% of voting rights in the company. However, sometimes the threshold has been acknowledged to be at 20%. The Securities and Exchange Commission defines Blockholders with over 5% equity stake in the firm, where the Blockholders can use concentrated control over managers and decisions (Connelly et al., 2010). Even though research has not agreed upon a specific definition for concentrated ownership, the main idea is clear: a significant number of shares is owned by one or few owners. When ownership is concentrated, the largest shareholders have control and benefits minority shareholders cannot participate to.

The geographical area where the company operates also influences how concentrated ownership is perceived and how it affects the company (Franks & Mayer, 2017). For example, in Finland, ownership structure is extremely important because the corporate law provides the Annual General Meeting (AGM) to hold the power over the board and can replace it at any time. Hence, the owners who have the most influence in the AGM have the control over the company (Jakobsson and Korkeamäki, 2015).

2.1 Recent trends and developments

Aguilera and Crespi-Cladera (2015) point out that historically, controlling ownership has been the norm in continental Europe. However, recently Europe has been moving towards the Anglo-American system where ownership is more dispersed and the difference between corporate ownership and managerial power is more defined.

According to Connelly et al. (2010), concentrated ownership might have accelerated activism in owners. Activism allows owners to define their intentions for the company and gives an opportunity to affect firm performance. To increase their influence on the firm, some owners acquire seats on the board of directors, or they execute a proxy contest to remove board members who do not share the same interest as activist owners.

Dual class share structure is losing its popularity in Finland, but becoming more popular in the United States (CFA Institute, 2018; Jakobsson and Korkeamäki, 2015). In the late 2010, multiple significant IPOs have had dual class shares and the dual class share structure has been gaining popularity after 2000s (CFA Institute, 2018). Dual class shares have been a common way to organize power to certain shareholders and it is seen frequently in family businesses. Ownership with two classes of shares is usually organized through A-shares and B-shares where A-shares usually give more voting rights than B-shares.

2.2 Different forms of concentrated ownership

Although concentrated ownership can be assessed as an aggregate term, it can also be divided into various forms that significantly differ from one another. Main forms of concentrated ownership are ownership by family, state, or another firm, for example a pension fund.

Family ownership

Family ownership is the most common form of ownership around the world according to Franks and Mayer's (2017) research. Approximately one third of public companies in Europe and in the U.S. are family-controlled.

There is no one accepted definition for family firms but there is a general perception of the qualities it has. Family ownership or control can appear in multiple ways, and examples of those are that a large proportion of shares is held by one or several members of the same family, firm's strategy is significantly impacted by two or more family members, family member holds a major position in the company or there is an internal inheritance mechanism present. (Reddy et al., 2017)

State ownership

State ownership is defined as the state directly, or indirectly via a state-controlled entity or fund (e.g., Solidium in Finland or the Government Pension Fund of Norway), having a significant ownership stake of a company. State-ownership is the dominating ownership form in China, and it is also popular in Finland and Sweden (Franks and Mayer, 2017; Jakobsson and Korkeamäki, 2015). However, in general, state ownership is relatively rare around the world as determined by Franks and Mayer (2017) but governments' control in firms is more common in other ways.

Direct state ownership and state ownership via a state-controlled entity or a fund can also have slightly different implications. For example, Cuervo-Cazurra et al. (2014) point out that companies owned by state-controlled funds or pension funds are often more focused on achieving higher financial performance compared to directly state-owned companies, which may have a greater focus on fulfilling other strategic objectives of the state – such as guaranteeing functional infrastructure for the country.

Ownership by other firms

As stated in Franks and Mayer's (2017) research, private industrial firms are the second largest owners around the world and institutional investors the third largest. Typical owner companies are private equity firms, venture capital firms, larger parent companies, companies with same strategic objectives, pension funds and banks.

3. Main benefits related to concentrated ownership

Concentrated ownership has been associated with multiple benefits over the history of corporate governance literature. The benefits can roughly be categorised into two categories: better alignment of interests and longer-term decision-making horizon.

One of the most popular issues in the corporate governance field is the concept of agency problems, which are caused by informational asymmetries and misalignment of interests between company management and owners. Having a controlling owner in the company can substantially reduce this issue (Connelly et al., 2010). A controlling owner often has the incentives to monitor the actions of the managers closely and the power, in a form of concentrated decision rights, to make a change if any misuse of managerial power takes place.

Concentrated ownership is also associated with long-term commitment and thus better decisions (Gutiérrez & Sáez, 2016). Controlling owners or blockholders are usually owners planning to hold the position over a long period of time. This will give the owners incentives to actually focus on strategic decision-making that aims for sustainable value creation. Long-term owners have the incentives and means to make changes inside out, and not just by entering and exiting the company.

3.1 Main benefits from family ownership perspective

A large body of empirical evidence suggests that family ownership boosts firm performance. For example, Reddy et al. (2017) found a strong positive relationship between family ownership and firm performance. They tested three positive hypotheses with a set of 1768 European firms and present the following results. First, they confirmed that family-controlled firms indeed perform better than other firms. In this case, performance was measured by Tobin's Q, return on assets (ROA), and cumulative abnormal return (CAR). Second, the authors found that family firms with active control perform better than family firms with passive control. In this context, active control refers to at least one of the two highest officer positions being held by a family member. Complementary evidence has also been found by Villalonga and Amit (2006) who found that having a family firm founder serving as CEO or chairman of the board is associated with a higher valuation of the company. Third, they found that the optimal proportion of blockholding sets somewhere between 30% and 40%.

Studies in this field have proposed multiple explanations for such superior performance. The main reasons can roughly be divided into similar categorization as the benefits of concentrated ownership in general: reduced agency problems and incentives for long-term value creation.

Instead of agency theory, family firms often function more according to the stewardship theory presented by Davis, Schoorman and Donaldson (1997). Stewardship theory proposes that managers can act loyally in the best interest of owners and put organizational benefits ahead of their own. In family firms the owners and the family managers often have shared goals e.g., the wealth creation to the family, which greatly reduces the amount of agency issues.

Several hypotheses have been presented for family firms' superior capability to look for long-term value creation and development. First, family firms are often viewed as unique family wealth and legacy to future generations. Therefore, the owners have incentives to make decisions that maximize the company value for the generations inheriting the company years and years from now. Second, Reddy et al (2017) argue that family owners are often also highly dependent on their business reputation. This leads to the fact that all decisions are reflected against their reputational impacts that can carry a long way into the future. Therefore, only the decisions that create long-term value and equally consider minority investors are implemented.

Family ownership has also been studied in a Finnish environment, as Jakobsson and Korkeamäki (2015) document several relevant findings. In addition to previously presented benefits, it has been found that family companies in Finland have reacted more rapidly to crises than other firms. For example, they have generally higher fluctuation in number of employees over time. This may indicate that family firms are more willing to make difficult, but necessary decisions in order to ensure survival and long-term success of the firm.

3.2 Main benefits from state ownership perspective

States usually invest into firms that are fundamentally important for the society. Besides importance to society, these are typically also fields where it would not be beneficial for private firms to operate in. Because of the nature of these firms, the state is usually prepared to support them financially or in other ways in case they face hard times. This greatly reduces the risk for these firms to face financial distress or bankruptcy. Therefore, other investors in these firms will consequently face a decreased risk of losses. In the context of Finland, e.g., Finnair and Fortum can be categorized as such government-backed firms that are seen as critical or significant to the society.

Connelly et al. (2010) argue that e.g., sovereign wealth funds, a more subtle form of state ownership, provide stabilising force to a company. A state as an owner is usually looking for long-term development and value creation rather than quarterly results performance, which can reduce sub-optimizing and lead to better results, thus increasing the stability.

Besides the shareholder value creation perspective, majority ownership by a state creates lots of societal and environmental benefits. The state can for example support in creating employment in periphery and provide goods and services that would not otherwise be accessible to the public.

3.3 Main benefits from the perspective of ownership by other firms

Financial institutions are by nature usually rather investors than controlling owners (Jakobsson and Korkeamäki, 2015). However, they can still have considerable positions in their portfolio companies and thus, can have some bargaining power. Indeed, institutional investors have recently been increasingly using their power as activist investors to influence their portfolio companies.

Financial institutions as owners have indeed been proven to both boost firm performance (Maury and Pajuste, 2005) and have greater impactful influence on e.g., environmental, and societal sustainability development (Dyck et al., 2019), than individual investors with smaller holdings could ever have. This happens though influence from inside out, which seems to be a more efficient way of influence than just buying and selling the company’s stock. Another factor that institutions can bring into their portfolio companies is the expertise and professional opinions that can steer the company towards better direction.

Private equity owners can be either minority or majority owners depending on the fund type. In the context of concentrated ownership, controlling owners such as buyout investors, are by nature better positioned to influence the company. In a typical buyout investment, the new acquirer often seeks to implement changes to the company. These can include e.g., taking in significant amounts of leverage, restructuring the management team, and setting up new compensation systems. These kinds of actions are associated with decreasing agency issues, which in turn should boost the firm performance. In addition, in this case the owners have the incentives and the power to closely monitor and control the management.

Besides existing owners, there exists some evidence from impact of ownership changes in mergers and acquisitions. In general, international takeovers are proven to have positive effects on the target companies (Jakobsson and Korkeamäki, 2015). This effect is mainly because of the new perspective, knowledge and skill that is being imported to the company. As the Finnish economy is quite small and has limited resources, this foreign ownership effect can emerge especially strongly.

4. Cons related to concentrated ownership

Although concentrated ownership has been associated with many benefits, corporate governance literature has provided extensive evidence on the downsides of concentrated ownership structures. The most fundamental downside associated with concentrated ownership is the horizontal corporate governance problem (Gutiérrez and Sáez, 2016; Jakobsson and Korkeamäki, 2015; Reddy et al., 2017; Roe, 2004). Hence, in the context of this report, downsides of ownership concentration are mainly about unfavourable majority owner behaviour and how that impacts other stakeholders of the company.

Controlling shareholders often have a dominating position at the company and hold a majority of the votes. These majority shareholders raise capital from the external capital markets, while retaining a controlling position at the company (Gutiérrez and Sáez, 2016). This majority position gives controlling shareholders a superior decision-making capacity with respect to minority shareholders. Consequently, in companies with large, controlling shareholders, the decisions of management reflect the interests of the majority shareholders. Major shareholders' interests are often different from minority shareholders' interests; for example, major shareholders might prefer projects that bring long-term profitability, even though they might have a negative impact on short-term earnings. Minority owners, on the other hand, often prioritize consistently high short-term earnings (Connelly et al., 2010). These situations create horizontal conflicts of interests and consequent in a weaker decisional capacity of minority shareholders and allow misbehaviour by majority owners.

Strong position of majority shareholders enables opportunism and self-serving behaviour. Gutiérrez and Sáez (2016) argue that highly concentrated ownership structures enable majority owners to extract private benefits from companies and expropriate outside investors. They agree that tunnelling, self-dealing and other forms of opportunism and owner misbehaviour lead to a loss of economic value and diminishes the return on minority shareholders' investments. It is noted that minority shareholders are most vulnerable to majority owners' opportunism in jurisdictions where the protection for minority owners is weak (Gutiérrez and Sáez, 2016). In these contexts, the minority shareholders' means of influence are often inefficient in keeping the majority owners responsible for their misbehaviour.

Another issue that further weakens the position of outside investors is the possibility of diminishing transparency of information. Majority owners have high monitoring powers due to a high access to insider information (Connelly et al., 2010). A high flow of insider information is very beneficial for decision-making but may also lead to diminished informational transparency. As the board of directors' activities do not necessarily depend on formally reported information, there may be a diminished pressure to provide high-quality information for external stakeholders. Gutiérrez & Sáez (2016) imply that consistent with the paradox of ownership concentration leading to a weaker position of minority shareholders, the high flow of information to controlling shareholders tends to lead to a diminished supply of information for minority owners further weakening their position.

In addition, Gutiérrez and Sáez (2016) argue that this informational asymmetry may also harm companies' growth and investment opportunities, as external investors are less drawn to invest in companies with low-quality reporting and lacking transparency. Research has found that in countries where high control premiums are paid, there is a negative correlation with quality of accounting disclosure rules, level of protection of minority owners, level of product market competition and quality of law enforcement (Gutiérrez and Sáez, 2016). This implies that in contexts where owners have an opportunity to extract private benefits from companies, the level of compliance and transparency is often weak leaving the minority shareholders in a vulnerable position.

4.1 Main cons from family ownership perspective

Although family owners create advantages and are linked with higher profitability (Reddy et al., 2017; Jakobsson and Korkeamäki, 2015), family ownership may create negative implications for minority owners. Reddy et al. (2017) argue that altruism may cause family managers to make decisions that may sacrifice the company's benefit to maintain the family's benefits. This can be explained by the stewardship theory – altruism encourages family managers to make decisions that put the family interests before private benefits (Reddy et al., 2017). This effect may lead to managerial decisions that do not optimize profitability or maximize the value of the minority shareholders' investments.

Reddy et al. (2017) present empirical evidence that high control levels, defined as over 40% block-holdings, dampen the benefits of family ownerships. They argue that a very high shareholding may be unattractive to external investors, because of high asymmetry in information and limitations to counterbalance the controlling family's power (Reddy et al., 2017). Difficulties in accessing new financing may consequently limit growth and investment opportunities. In conclusion, too dominant blockholdings make raising external equity more difficult, which limits growth and development opportunities. This is a threat for long-term growth development and maintaining market power.

4.2 Main cons from state ownership perspective

State ownership is a very common form of concentrated ownership. There is a predominant understanding amongst researches that state ownership has been associated with a less efficient financial performance than their privately owned counterparts (Connelly et al., 2010; Jakobsson and Korkeamäki, 2015). State-owned companies often put macro-economic goals, for example maintaining high levels of employment, ahead of economic efficiency. In addition, state-owned companies often lag in innovation thus leading to slower economic growth. Economic inefficiency in state-owned companies may also be due to soft budgetary constraints (Connelly et al., 2010).

State owned companies are often under tight media scrutiny. This may lead to company management to make decisions that are rather myopic and solutions for problems only in the short-term; the decisions may be also motivated politically (Jakobsson and Korkeamäki, 2015). Political motivations may also influence the appointment of directors and executives. This may lead to poor management, as politically motivated candidates may not always have the best tools to manage the company (Jakobsson and Korkeamäki, 2015). Political motivations undoubtedly influence the decision-making of state-owned companies, which may not maximize the financial value of the company. All in all, the economic inefficiency that state ownership has been associated with indicates that state as a majority owner rarely maximizes the value of minority shareholders but rather acts in the best interest of the state.

4.3 Main cons from the perspective of ownership by other firms

This subsection of ownership by other companies covers a variety of different owners; these different companies each have potential threats when they act as controlling owners. One significant category that falls under this subsection is institutional ownership. Institutional owners are liable to create value for their customers' investments. When owners have obligations towards their own customers, dual-agency problems may occur. Institutional owners are required to make decisions that are in the best interest of their customers and these decisions may not be aligned with the best interests of the company that they own. Institutional owners indeed often prefer to maintain high returns to shareholders, which has been found to result in reduced innovation (Connelly et al., 2010).

5. How to avoid negative effects of concentrated ownership

Solving the horizontal corporate governance problem caused by concentrated ownership structures is a highly discussed issue in corporate governance literature. One corporate governance mechanism that is introduced as a shielding mechanism is independent directors, who represent the interests of minority shareholders in the board of directors (Gutiérrez and Sáez, 2016; Roe, 2004). Although independent directors aim to maximize the value of the company and are efficient in monitoring the majority owners' activities, there is conflicting evidence on the efficiency of independent directors (Gutiérrez and Sáez, 2016; Roe, 2004). In companies with large majority owners, independent directors are not likely to have a powerful position in the board due to the dominance of the majority owners. In addition, Roe (2004) observes that the role of independent directors is more to represent the shareholders, not to advise the management. Independent directors may be efficient in monitoring the activities of the majority owners, they often lack mechanisms to effectively intervene in controlling shareholders' possibly adverse behaviour (Gutiérrez and Sáez, 2016).

Another mechanism that has been identified as a possible remedy to the horizontal corporate governance problem is activism by institutional owners (Gutiérrez and Sáez, 2016). Gutiérrez and Sáez define activism as actions that are taken by minority institutional investors to maintain majority shareholders' accountability and override decisions that are not in the best interests of outside investors. Research has found that especially hedge fund activism has high returns and that institutional owners' activism often leads to a higher representation of minority shareholders' interests (Gutiérrez and Sáez, 2016). However, activism is often very costly, especially if activists have to overcome large blockholders. Particularly, when it comes to key decisions, overcoming the majority shareholders is challenging and activism efforts may be inefficient (Gutierrez and Sáez, 2016).

Gutiérrez and Sáez (2016) argue that dispersed capital markets could diminish the horizontal corporate governance problem. Their argument is that efficient product market competition could substitute corporate governance altogether; competition in the product markets would force companies to reduce inefficiencies and maximize company value in order to attract investors (2016). This "survival of the fittest"- approach would diminish concentrated ownership structures altogether and guide management by the fear of investors exiting the company. Achieving this would require policies that foster competition and grow the capital markets. However, for this theory to work, markets would have to work perfectly, which they never do, as each market is imperfect (Roe, 2004).

All in all, there is an ongoing discussion about mitigating the negative consequences of concentrated ownership structures, but no consensus on a single working strategy has been found. The efficiency of the corporate governance mechanisms depends highly on organizational context and jurisdictional landscape. Thus, it is challenging to point out one single policy that could universally eradicate the downsides of concentrated ownership, but the corporate governance mechanisms should be analyzed as a bundle that fits the organizational and jurisdictional context of the company.

6. Case company analyses

To further understand concentrated ownership and its implications in practice, we analyse two case companies through our findings in relevant literature. For our case companies we chose Finnair and Kone, both of which have very concentrated ownership structures: Finnair with the state of Finland as a majority owner, and Kone which is family-controlled. In this section, we discuss the ownership structures of the case companies, and reflect on the implications of these structures based on relevant literature.

6.1 Case Finnair: Implications of majority state-ownership on a public company

For our first case company, we analyse Finnair and focus on the significance of majority ownership by the state of Finland in the company. Finnair is the national airline of Finland and is headquartered in Vantaa, Finland. Finnair was founded in 1923, and has been listed on Nasdaq Helsinki since 1989 with one share class. The current CEO of Finnair is Topi Manner, and according to Google Finance (2022) the market capitalisation of the company as of December 2, 2022 is 630.72 million euros. Finnair's ownership is highly concentrated and for a listed company, somewhat untraditional due to its state-ownership shareholder structure. Finnair is majority-owned by the state of Finland with the Prime Minister's Office (PMO) owning 55.9% of the shares, while other shareholders are very fragmented – apart from the State of Finland, no other shareholder owns over 3% of the shares. The other five largest shareholders of Finnair are major pension insurance companies (Varma, Ilmarinen, and Elo) as well as the State Pension Fund of Finland. According to Finnair, private households own 29.1% of the shares. (Finnair, 2022)

As the national airline of Finland, the state most likely has a strong strategic interest in the company and in the services it provides to the country. These interests are not always performance-related, which may lead to misalignments between the majority owner and other owners. In their research, Connelly et al. (2010) discuss the potential issues regarding a state being heavily involved in the strategic decisions within a company and trying to protect companies or industries which may not survive without their help. As Finnair's ownership is directly through the Prime Minister's office rather than a state fund such as Solidium, as documented in Cuervo-Cazurra et al. (2014), one could argue that the strategic motivations behind the state-ownership are even stronger. More concretely, an example of possibly misaligned interests between majority and minority owners could be e.g., wanting to preserve certain airways for routes that may be financially less profitable but otherwise important for the citizens of Finland – such as routes to and from smaller Finnish towns – than concentrating on perhaps more profitable international routes.

According to the Prime Minister's Office (2020), Finnair operates the vast majority of its flights within and from Finland. However, in the past forty years the trend has been moving towards privatizing national airlines in several countries such as Australia (according to Quantas (2022), the company was state-owned until 1992), Canada (according to Air Canada (2022), the company was majority state-owned until 1989 and nowadays minority owned by the state), and Germany (according to Lufthansa (2022), the company was state-owned until 1994). Related to this, the state of Finland rationalizes the need for stronger state support for Finnair with the fear of the competitive market not filling the vacuum, especially for less profitable airways. This is most likely a common explanation, especially for smaller countries with less demand, to keep up national airlines and provide consistency in flight routes.

Although there may be misalignments of interests between majority and minority shareholders due to the strategic incentives of the state, there are also some advantages of the state-ownership for the minority shareholders. First, as an example, according to the Prime Minister's office (2020), the state is committed to supporting Finnair in the long term and through economic difficulties, which to some degree decreases the uncertainty for other shareholders. For example, due to the effects of COVID-19 on the airline industry, the government of Finland granted Finnair a loan of 400 million euros (Finnair, 2022). Second, a state as a controlling owner is also often committed to the company in the long-run, and in the case of Finnair and reflecting on the research by Connelly et al. (2010), it seems that the PMO has signalled its intent on being a buy-and-hold owner in the long-term, as it does not actively trade Finnair's shares and has increased its ownership e.g., through fully participating in Finnair's rights issue in June 2020 (Finnair, 2020).

In terms of the management of the company, to our understanding the executive roles are held by individuals independent from the Government. However, and most likely due to incentive programs, the CEO Topi Manner is a significant owner of the company, being one of the twenty largest shareholders. On one hand, Connelly et al. (2010) cite Jensen and Meckling (1976) as they argue, that executives are more likely to seek long-term value creation as their ownership stake increases. On the other hand, the authors cite Morck et al. (1988) as they argue, that executives with large ownership stakes may become entrenched within the company, thus potentially reducing the company's risk-taking in an attempt to protect their own interest. However, the government does have representation in the board of directors. By association with the Prime Minister's Office, Maija Strandberg who sits on the Board of Directors is considered dependent from the majority shareholder but independent from the company otherwise. Connelly et al. (2010) argue that insider ownership can help align the interests of the shareholders and management. With this in mind, on one hand it could be argued that

Strandberg could act in the best interest of the major shareholder and thus help with the alignment of interests. On the other hand, it is also worth noting that board independence is often valued by investors and related to increased firm performance (see e.g., Fauver et al., 2017; Shan, 2019).

6.2 Case Kone: Implications of family ownership and control

Kone is an elevator and escalator engineering company headquartered in Espoo, Finland. The company was founded in 1910 and has been controlled by the Herlin family since 1924. The company has been listed on Nasdaq Helsinki since 1967 with B-shares from the dual-class share structure being publicly traded. In terms of voting rights, each A-share gives its owner one vote in the Annual General Meeting while a set of ten B-shares is needed for one vote in the AGM. The current CEO of Kone is Henrik Ehrnrooth, and according to Google Finance (2022) the market capitalisation of the company as of December 2, 2022 is 22.16 billion euros. (Kone, 2022)

Kone has a long history of family ownership with four generations of the Herlin family in controlling positions. Currently, Antti Herlin owns roughly 23% of the shares of Kone privately and through two holding companies, Holding Manutas Oy and Securita Trading Oy, and his ownership of the company gives him the voting majority with 62.3% of the voting rights. Antti Herlin and Kone Foundation are notably also the only owners of the A-shares of the company. Other Herlin family members are also present in the major (i.e., top hundred) shareholders reported by the company, with the voting rights of individuals bearing the surname Herlin in the top hundred largest owners adding up to approximately 0.4% of the voting rights. (Kone, 2022)

Executive roles of Kone are held by non-family members, which is a trend that has been increasing in family-controlled firms in the past decades – the first CEO of Kone from outside the Herlin family since 1924 was appointed in 2005 (Kone, 2022). Non-family management has been documented to affect for example both financial and non-financial performance of the company, aversion, tenure, and expectation of the CEO, as well as conflict and information asymmetry within the company. Bennedsen et al. (2007) find that in Denmark, family succession of the role of CEO was negatively associated with firm performance financially, and Miller et al. (2014) find that especially due to higher level of talent and supervision, non-family CEOs outperform family CEOs in an analysis of Italian family firms. Further, Connelly et al. (2010) cite Anderson and Reeb (2003) as they conclude, that family ownership rarely creates value for the company or the minority shareholders. However, contradicting evidence is found in cases where the founder of the company acts as the CEO (Villalonga and Amit, 2006) – in Kone's case, the company's CEO has been appointed from outside the family since 2005. As documented in Gomez-Meija et al. (2003), CEOs that have family ties are usually paid less, but are subject to lesser criticism, potentially caused by the family owners' emotional ties and decreased monitoring of the CEO's actions. To the extent these results hold true, in a broader context, Kone's decision to employ CEOs from outside the Herlin family could imply greater value creation to all shareholders compared to a CEO with strong family ties. Kone choosing to separate the majority owner from the management could be due to aiming for accelerated performance or other factors, such as raising the professionalism within management.

In terms of the Board of Directors, Antti, Iiris, and Jussi Herlin hold positions in the board, with Antti Herlin being the Chairman (Kone, 2022). Connelly et al. (2010) cite Hermalin and Weisbach (2003) as they argue that the insider ownership of executives and board members have similar fundamental implications for the company's performance and investor perceptions. In other words, ownership stakes in the company of both executives and board members are often associated with long-term value creation and decreased interest in pursuing short-term fiscal goals and key performance indicators (KPIs). In Kone's case, this would imply that the current board composition is beneficial for value creation from all shareholders' perspective, as key decision-makers in the board have significant ownership stakes in the company.

A large body of literature argues that family ownership is an inefficient ownership structure. First, Shleifer and Visny (1997) document, that stakeholders with superior voting rights or control rights often seek to act in their self-interest at the expense of the company. In Kone's case, Antti Herlin's significant majority share of voting rights could potentially create a situation where interests between Herlin family and the rest of the shareholders are misaligned, leading to suboptimal decision-making. Second, Morck et al. (2000) suggest, that families often favour family members for top management and board positions. This might lead to a situation where the members for the key roles in the company are not necessarily chosen based on merit, potentially affecting the performance of the company negatively. However, to the extent that the results hold true, as Kone's board composition is rather diverse and includes several members from outside the Herlin family, it could be argued that even if Herlin family is present in the board of directors, the board composition does not necessarily impact the performance of the company negatively.

7. Conclusion

To conclude, in this paper we discuss ownership concentration in its various forms, and its pros and cons by reviewing relevant literature. In addition, we reflect on these findings in the context of two case companies, Finnair and Kone. Although there seems to be no common consensus on whether concentrated ownership is beneficial to a company or not, there are certain distinct types of concentrated ownership structures, such as family ownership and state ownership, that have been documented to influence several company-level factors. For example, in terms of financial performance, family ownership is often associated as being beneficial for the company, and a large body of corporate governance literature has documented how family ownership is empirically associated with stronger company performance. However, state ownership is mainly associated with the complete opposite financial performance impact. Based on relevant literature, we suggest that the impact of concentrated ownership is unambiguous and highly dependent on the characteristics of the controlling entity. Furthermore, it is important to note that to see the comprehensive image, one should also consider the effects to all stakeholders and to the society as a whole.

References

Aguilera, R. v., & Crespi-Cladera, R. (2016). Global corporate governance: On the relevance of firms' ownership structure. Journal of World Business, 51(1), 50–57. https://doi.org/10.1016/j.jwb.2015.10.003

Air Canada (2022). Corporate profile. Retrieved on Nov 28, 2022. https://www.aircanada.com/ca/en/aco/home/about/corporate-profile.html#/

Anderson, R. C., & Reeb, D. M. (2003). Founding-family ownership and firm performance: evidence from the S&P 500. The journal of finance, 58(3), 1301-1328.

CFA Institute (2018). Dual-class shares: The Good, The Bad and The Ugly. https://www.cfainstitute.org/-/media/documents/survey/apac-dual-class-shares-survey-report.pdf

Connelly, B. L., Hoskisson, R. E., Tihanyi, L., & Certo, S. T. (2010). Ownership as a form of corporate governance. Journal of Management Studies, 47(8), 1561–1589. https://doi.org/10.1111/j.1467-6486.2010.00929.x

Cuervo-Cazurra, A., Inkpen, A., Musacchio, A., & Ramaswamy, K. (2014). Governments as owners: State-owned multinational companies. Journal of international business studies, 45(8), 919-942.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. The Academy of Management Review, 22(1), 20-47. doi:10.5465/AMR.1997.9707180258

Dyck, Alexander, Karl V. Lins, Lukas Roth, and Hannes F. Wagnerd, 2019, Do institutional investors drive corporate social responsibility? International evidence, Journal of Financial Economics 131,693-714.

Fauver, L., Hung, M., Li, X., & Taboada, A. G. (2017). Board reforms and firm value: Worldwide evidence. Journal of Financial Economics, 125(1), 120-142.

Finnair website (2022). Board of Directors. Retrieved on Nov 28, 2022. https://investors.finnair.com/en/governance/board-of-directors

Finnair website (2022). Company Management. Retrieved on Nov 28, 2022. https://investors.finnair.com/en/governance/company-management

Finnair website (2022). Shareholders. Retrieved on Nov 28, 2022. https://investors.finnair.com/en/shareholders

Finnair (2020). Rights issue press release. Retrieved on Nov 28, 2022. https://investors.finnair.com/en/rights-offering

Franks, J., & Mayer, C. (2017). Evolution of Ownership and Control Around the World: The Changing Face of Capitalism. http://ssrn.com/abstract_id=2954589www.ecgi.org/wp

Gomez-Mejia, L. R., Larraza-Kintana, M., & Makri, M. (2003). The determinants of executive compensation in family-controlled public corporations. Academy of management journal, 46(2), 226-237.

Google Finance data (2022). https://www.google.com/finance/?hl=en

Government Communications Department of the Finnish Government (2020). Ministeri Tuppurainen: Valtio vastuullisena ankkuriomistajana Finnairissa. Retrieved on Nov 28, 2022. https://valtioneuvosto.fi/-//10616/ministeri-tuppurainen-valtio-vastuullisena-ankkuriomistajana-finnairissa

Government Communications Department of the Finnish Government (2022). State converts Finnair’s hybrid loan to capital loan. Retrieved on Nov 28, 2022. https://valtioneuvosto.fi/en/-/10616/state-converts-finnair-s-hybrid-loan-to-capital-loan

Gutiérrez, M. & Sáez, M. (2016) Strong shareholders, weak outside investors. The Journal of Corporate Law Studies, 18(2), 277–309. https://doi.org/10.1080/14735970.2017.1423160.

Hamadi, M., & Heinen, A. (2015). Firm performance when ownership is very concentrated: Evidence from a semiparametric panel. Journal of Empirical Finance. Volume 34, Pages 172-194, ISSN 0927-5398, https://doi.org/10.1016/j.jempfin.2015.07.004.

Hermalin, B., & Weisbach, M. S. (2003). Boards of directors as an endogenously determined institution: A survey of the economic literature.

Jakobsson, U., & Korkeamäki, T. (2015). Ownership and corporate governance in Finland: A review of development trends * (Vol. 64, Issue 4).

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. In Corporate Governance (pp. 77-132). Gower.

Kone website (2022). Birth of a Global Machine. Retrieved on Nov 28, 2022. https://www.kone.com/en/company/history/

Kone website (2022). Executive board. Retrieved on Nov 28, 2022. https://www.kone.com/en/company/organization-and-management/executive-board-members.aspx

Kone website (2022). Kone in Brief. Retrieved on Nov 28, 2022. https://www.kone.com/en/company/

Kone website (2022). Kone Share. Retrieved on Nov 28, 2022. https://www.kone.com/en/investors/kone-share/

Kone website (2022). Retrieved on Nov 28, 2022. Major Shareholders and Ownership structure. https://www.kone.com/en/investors/shareholders/major-shareholders-and-ownership-structure/

Lufthansa Group (2022). As time flies by – from an airline to an aviation group. Retrieved on Nov 28, 2022. https://www.lufthansagroup.com/en/company/history.html

Maury, B., Pajuste, A., Finansiell Ekonomi (FI), & Handelshögskolan i Stockholm. (2005). Multiple large shareholders and firm value. Journal of Banking and Finance, 29(7), 1813-1834. doi:10.1016/j.jbankfin.2004.07.002

Miller, D., Le Breton-Miller, I., Minichilli, A., Corbetta, G., & Pittino, D. (2014). When do non-family CEO s outperform in family firms? Agency and behavioural agency perspectives. Journal of Management Studies, 51(4), 547-572.

Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. Journal of financial economics, 20, 293-315.

Morck, R., Stangeland, D., & Yeung, B. (2000). Inherited wealth, corporate control, and economic growth the Canadian disease?. In Concentrated corporate ownership (pp. 319-372). University of Chicago Press.

Quantas (2022). Our history. Retrieved on Nov 28, 2022. https://www.qantas.com/fi/en/about-us/our-company/our-history.html

Reddy, K., Hewa Wellalage, N., & Wang, Z. (2017). Corporate Governance Practices of Family Firms in Europe and Firm Financial Performance. https://ssrn.com/abstract=2914735

Roe M.J., 2004, The institutions of corporate governance. Harvard Law School, Discussion Paper 488, 1-16.

Shan, Y. G. (2019). Managerial ownership, board independence and firm performance. Accounting Research Journal.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. The journal of finance, 52(2), 737-783.

Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value?. Journal of financial Economics, 80(2), 385-417.

Villalonga, B., & Amit, R. (2010). Family Control of Firms and Industries. Financial Management. 863-904. Vol. 39:3. https://doi.org/10.1111/j.1755-053X.2010.01098.x