The missing role of controlling shareholders in the short-termism debate

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We want to thank participants in the Young Corporate Law Scholars Workshop, the ACLE-YSI Young Talents in Law & Finance Conference (and especially Suren Gomtsian, the discussant), the Midterm Meeting of the European Master in Law and Economics in Hamburg, the ECGI conference on "short-termism in European corporate governance" (organized by the University of Antwerp and Harvard Law School), and faculty workshops at Tilburg Law School and Maastricht University. We would also like to thank Luca Enriques, Jeroen Delvoie and our anonymous peer reviewers for helpful comments on previous drafts of this paper.

Abstract

Corporate short-termism, i.e., corporations sacrificing long-term value for short-term profits, has received a lot of attention in the corporate governance literature. However, the role of controlling shareholders in the short-termism debate has remained understudied, possibly because of a focus on US and UK governance systems. This paper addresses this by comprehensively analyzing the impact of controlling shareholders on the short-termism problem. Two conceptual hypotheses of short-termism are presented, one where short-termism originates with institutional investors, and one where it originates with managers and directors. The paper then shows how controlling shareholders can eliminate short-termism in both hypotheses, but only if controlling shareholders themselves are not excessively short-term oriented, which depends on the type of controlling shareholder. The paper concludes with some policy implications, including with regard to loyalty voting rights and dual class share structures.

Keywords: Short-termism; controlling shareholders; corporate governance; dual class shares structures; loyalty voting rights

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Abstract

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1. Introduction

Corporate short-termism is often seen as a large societal problem. For example, Joe Biden, then still vice-president of the United States, wrote in a 2016 op-ed for the Wall Street Journal: "[s]hort-termism […] is one of the greatest threats to America's enduring prosperity".[3] Sasja Beslik said at the World Economic Forum that "[t]he finance world's short-termism will destroy our communities, economies and the planet".[4] The Ernst & Young (EY) Study on directors' duties and sustainable corporate governance, commissioned by the European Commission, also stressed the negative impact of short-termism: "[s]hort-term time horizons that fail to capture the full extent of long-term sustainability risks and impacts could amount to overwhelming environmental, social and economic consequences for companies, shareholders, investors, and society at large".[5]

Corporate short-termism can be defined as the idea that "corporate directors and managers […] favor immediate but lower-value results over more profitable long-term results".[6] This problem is essentially about sacrificing long-term shareholder value, and should be distinguished from the sacrifice of stakeholder value for (short-term) shareholder value. The latter is a separate problem that requires a separate analysis,[7] even though short-termism will often harm not only shareholders, but also stakeholders. The problem of short-termism has received a lot of attention in the corporate governance literature, with at least two recent books on the topic,[8] as well as too many articles to cite. However, almost all of the studies focus on short-termism in the US or the UK, and very few of the studies discuss to what extent short-termism could be a problem in other corporate governance systems, such as in continental Europe.[9] This can possibly explain why the impact of controlling shareholders on corporate short-termism has so far received little attention in the current short-termism debate, perhaps with a few exceptions,[10] as

3 Biden (2016).
4 Beslik (2017).
5 Ernst & Young (2020), p 45 (hereinafter the 'EY Study').
6 Roe (2013), p 981.
7 Roe (2022), pp 52-64; Edmans et al. (2021).
8 Roe (2022); Willey (2019).
9 A notable exception is the EY Study (2020), which studies short-termism in the EU. However, the empirical study of this study suffers from serious methodological flaws and the literature review is extremely one-sided, as discussed further below. The report also does not discuss the specific governance structure in European countries, including the role of controlling shareholders, which could have a strong impact on short-termism, as discussed in this paper.
10 See section 4 below for a brief overview of the existing literature on controlling shareholders in the short-termism debate.

controlling shareholders are relatively rare in the US and the UK, but common in many other countries, including continental European ones.[11]

The goal of the paper is to highlight the missing role of controlling shareholders in the current short-termism debate. To be clear, the paper does not argue that controlling shareholders are necessarily a boon or a curse for a corporation's long-term orientation. Rather, we argue that the lack of nuanced analysis of the role of controlling shareholders poses a conceptual problem that empirical research and policymakers should take into account. To address this conceptual problem, we first present two simple hypotheses of how corporate short-termism could originate (section 2). In the first hypothesis, institutional investors are short-termist oriented, and this short-termism is transmitted to managers and directors through a shareholder-oriented corporate governance system. We call this the 'investor short-termism hypothesis'. In the second hypothesis, it is managers who are inherently short-termist oriented, which leads to corporate short-termism. In this hypothesis, investors (including institutional investors) may be long-term oriented, but they lack the incentives to hold short-termist managers accountable. We call this the 'managerial short-termism hypothesis'. Which hypothesis reflects reality is important, because the policy implications are different.

In section 3, we investigate the empirical evidence that could support these hypotheses of short-termism. We conclude that while some studies find some evidence for each hypothesis of short-termism, the evidence that this is a systematic and economy-wide problem is much weaker.

Next, we analyze the impact of the presence of a controlling shareholder on corporate short-termism in both hypotheses of the short-termism problem (section 4). We conclude that controlling shareholders cut the transmission of short-termism in both hypotheses. However, it is unclear whether controlling shareholders are themselves more long-term or short-term oriented than other shareholders. Some characteristics of a controlling participation (including the size and the difficulties of transferring some private benefits of control) lock in controlling shareholders, giving them exposure to the long-term performance of the corporation. On the other hand, controlling shareholders may also have short-term incentives due to the possibility to extract private benefits of control. It is not clear which of these factors dominates, as the

[11] See the evidence presented in: Aminadav and Papaioannou (2020), p 1205.

empirical evidence on the impact of controlling shareholders is not conclusive. However, it is likely that the answer depends on the type of controlling shareholder.

In section 5, we discuss the policy implications of the analysis. We argue that many of the reforms that have been proposed to combat short-termism will not be effective in corporations with a controlling shareholder. This includes proposals to reformulate directors' duties to account for the long-term interests of shareholders and stakeholders, to encourage long-term ownership through loyalty voting rights, to discourage shareholder activism, to encourage long-term stewardship, to ban quarterly reporting, or to introduce sustainability reporting. Nevertheless, if the legislator believes that controlling shareholders are more long-term oriented than other shareholders, it could allow loyalty voting rights and dual class share structures to facilitate the creation of controlling shareholders. However, by creating a wedge between cash flow rights and control, this solution also increases the risk of private benefits extraction. This implies that minority shareholder protection becomes more important, if controlling shareholders are to serve long-term shareholder value. Section 6 concludes.

2. Two hypotheses for corporate short-termism

2.1 Investor short-termism hypothesis

Corporate short-termism could originate in various ways. Probably the most common theory of short-termism is that it originates with institutional investors who are assumed to be excessively focused on the short term in this hypothesis.[12] For the purposes of this article, the term institutional investors is broadly defined and includes different types of professional asset owners (such as banks, insurance companies, pension funds, …) and asset managers. The short-term preferences of these investors are transmitted to the managers and directors of listed corporations through various channels. First, institutional investors can pass on their preference for short-term results by advocating and voting for a remuneration policy that remunerates managers and directors on the basis of short-term results and the short-term share price, instead of long-term value creation. A second channel of transmission for short-termism is that institutional investors may engage with the corporation or support other shareholder activists in order to replace managers when they do not sufficiently focus on the short-term results. Third, institutional investors can vote with their feet and exit over disappointing short-term earnings, which may in turn negatively affect the short-term stock price.[13] As a result, managers

[12] This hypothesis was inspired by: Willey (2019), pp 155 et seq. See also: Cremers et al. (2020); Dallas (2011).
[13] See for this argument: Bushee (1998), pp 308-309; Cremers et al. (2020), p 4535.

who want to avoid a (temporary) decrease in the stock price because of an increased likelihood of an activist campaign by other short-term investors or because of a decreased value of their stock-based compensation, are incentivized to boost the short-term profits. Furthermore, it can be noted that not only the activist campaign or exit itself, but also the threat of such actions by institutional investors can form a plausible transmission channel.[14]

As a result of the transmission of short-term preferences, managers are pressured to eliminate value-creating long-term investments in order to realize higher short-term profits, which can then be distributed to shareholders through dividends or share repurchases. In the long run, however, this harms the corporation's profitability, as well as economic growth for society. Figure 1 summarizes this first hypothesis of short-termism, which we call the 'investor short-termism hypothesis'.

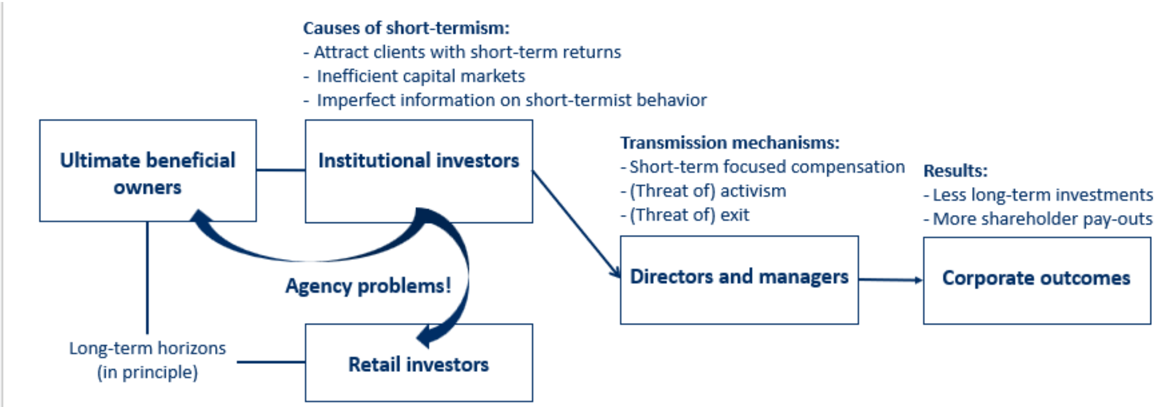

Fig. 1 first hypothesis of short-termism: investor short-termism

The investor short-termism hypothesis generally assumes that an agency problem exists between (some) institutional investors (the agents), on the one hand, and retail investors and the ultimate beneficial owners (the principals), on the other hand.[15] The latter are thought to have a long-term horizon, for example because they save for their retirement, but they have little or no influence on the governance of corporations.[16] In contrast, institutional investors are

[14] See for instance on the fear of an activist intervention as a potential transmission channel of investors' short-term preferences (so-called 'counterproductive accountability claim'): Bebchuk (2013), pp 1676-1681. However, note that the cited article criticizes the premise that short-term accountability is overall inefficient. See also on the impact of the threat of an exit by earnings-based investors: Willey (2019), p 158; Moore and Walker-Arnott (2014), p 427.
[15] See for a description of the agency costs associated with asset managers: Gilson and Gordon (2013).
[16] See: Strine (2017), pp 1877-1879 and pp 1884-1885.

assumed to have an influence on the corporate policy, but are excessively short-termist, according to the investor short-termism hypothesis.

The question arises why institutional investors would be excessively short-termist. Answering this question is not the primary goal of this paper, as the primary argument of the paper is that controlling shareholders could help to solve the (investor) short-termism problem (see further in section 4.1). However, it is useful to briefly list a few of the theories for why (some) institutional investors and in particular some asset managers may be short-termist. One explanation is that the clients of asset managers are irrationally focused on short-term returns, even if this is not in their long-term interests.[17] Alternatively, the short-term returns may be the only thing that the clients of asset managers can easily monitor when picking an asset manager.[18] Either way, this focus of clients on short-term results induces asset managers to deliver good short-term results, even at the expense of long-term shareholder value, because they want to attract new clients by presenting a profitable investment portfolio. In addition, the remuneration structure of asset managers themselves can induce them to behave myopically: if their compensation heavily depends on the short-term performance of the assets under management, their incentives to manage the fund for the long-term decrease.[19]

The investor short-termism hypothesis does not disregard the fact that there exists a high degree of heterogeneity in terms of time horizon preferences and levels of activism among different types of institutional investors.[20] Indeed, it could be that while some institutional investors (especially passive ones) are not short-termist (because they cater to clients with long-term interests), those institutional investors that are short-termist (because they cater to clients with shorter time horizons) are unfortunately more influential with regards to the governance of the corporation.[21] For example, it could be that index funds are generally long-term oriented but

[17] See, for example: Dallas (2011), pp 270-271 (arguing that behavioral biases, such as hyperbolic discounting and herding, may cause short-termism); Moore and Walker-Arnott (2014), pp 420-421 (arguing that certain irrational investor biases are systematic in nature and cannot be fully corrected by arbitrage).
[18] Dallas (2011), pp 294-295. See also: Shleifer and Vishny (1990), p 148 (providing an economic model that shows that in a market where outside investors cannot perfectly assess the ability of asset managers, the latter, as arbitrageurs, prefer to invest in short-term assets rather than long-term assets, given that "arbitrage […] is cheaper for assets that cannot stay mispriced for long (short-term assets) than for assets that can (long-term assets)").
[19] Willey (2019), pp 106-107. See in this regard also the policy proposals by the Aspen Institute and the Kay Review to incentivize asset managers through their compensation structure to think in the long term: Aspen Institute (2009), p 5; Kay (2012), p 13 and pp 80-81.
[20] See for this conclusion: Kavadis and Thomsen (2023), p 201.
[21] See, for example: Pozen (2015), pp 10-11 (stating several reasons why some institutional investors with long-term horizons are (rationally) not opposing to short-termist proposals by activists hedge funds).

passive, while hedge funds are generally short-termist but more active and therefore more influential.[22] Following this hypothesis, it is assumed that short-term institutional investors might have a stronger influence on managers than long-term institutional investors, if both are present. The net effect could thus be excessive investor short-termism.

These arguments (implicitly) assume that capital markets are to some extent inefficient: if capital markets were perfectly efficient, then long-term results should already be incorporated in the current share price and short-term investors would not be able to sell shares at an inflated price.[23] Other (formal) explanations of excessive investor short-termism build on the idea that market imperfections, for example, asymmetric information between managers and investors[24] and heterogenous beliefs among investors[25], lead corporations to favor short-term profits. For instance, in Stein's "signal-jamming model", the managers of the corporation can take an action that influences what investors perceive to be the value of the firm, in this case by boosting short-term profits at the expense of long-term value.[26] In the model, rational investors are imperfectly informed about whether the short-term profits are in line with the long-term value of the firm, although the investors anticipate that some of the managers will engage in short-termist behavior. Stein shows that, even though the investors bear the costs of short-termism, they will push the managers to engage in short-termist behavior, because some investors will have to sell their shares in the short term. The reason is that the investors would be even worse off if the managers did not engage in short-termist behavior, given that the market anticipates short-termist behavior.[27] The optimal outcome for investors would be that managers agree not to engage in short-termism and that investors do not assume that managers engage in short-termism, but Stein shows that this is not a stable equilibrium in the model, as managers can then fool investors through short-termist behavior. For the purpose of completeness, there are

[22] Section 3 will examine the empirical evidence, which does not seem to support the claim that hedge funds are excessively short-termist.
[23] Willey (2019), pp 139-147; Moore and Walker-Arnott (2014), pp 419-423.
[24] See, for instance: Stein (1989) (discussed below); Stein (1988) (providing an economic model that shows that in case of a takeover threat and a (temporary) undervaluation of a corporation's equity due to asymmetric information, managers have incentives to inflate current earnings and signal positive information to the market in order to ward off potential raiders). See in regard to short-term debt funding: Von Thadden (1995).
[25] See, for instance: Bolton et al. (2006) (presenting an economic model that shows that optimal managerial remuneration contracts may overemphasize short-term stock performance when shareholders in a speculative stock market hold heterogenous beliefs about the fundamental value of the corporation (i.e. some investors are 'overconfident') and short-sale constraints are present).
[26] Stein (1989).
[27] This is sometimes called the "Red Queen logic": Hermalin and Weisbach (2017), p 111 ("the manager is like the Red Queen in Lewis Carroll's Through the Looking Glass: she must run as fast as possible just to stay still") and p 130.

also models that show that, depending on the nature of the information asymmetry, better-informed managers will sometimes overinvest in long-term projects rather than underinvest.[28]

2.2 Managerial short-termism hypothesis

There is also an alternative hypothesis for how corporate short-termism could arise. In this second hypothesis, which we call the managerial short-termism hypothesis, short-termism originates from managers and directors, who are assumed to be inherently short-term-oriented.[29] One possible explanation for managerial short-termism is the managerial labor market: if managers can demonstrate good results during their tenure at the corporation, they have a higher chance of obtaining a better-paid and/or more prestigious position at another corporation.[30] The long-term results of the first corporation are less important in that scenario, because the managers will have left by that time anyway.[31] In addition, it could be that managers want to reap the benefits of their efforts during their tenure at the corporation as it affects their personal pride and legacy.[32]

A second possible explanation for managerial short-termism is that remuneration packages – under the influence of managers and directors themselves[33] – are based on short-term results and the short-term share price. If remuneration is based on short-term results, it may be easier for managers to manipulate short-term results (for example by postponing investments) or to exercise stock options when the share price is temporarily high, rather than to create real long-

[28] See, for example: Bebchuk and Stole (1993) (arguing that when investors can observe the level of investment in long-term projects but not the returns on investments from those projects, managers are incentivized to overinvest in long-term projects as it signals to the market a high profitability of its projects and hence increase the firm's market value). See for a similar analysis: Bizjak et al. (1993).

[29] See for a few arguments of why managers and directors could be excessively focused on the short term: Roe (2022), pp 117-118; Dallas (2011), p 271. See also: Bebchuk (2021), p 45; Roe (2013), p 996.

[30] This reasoning implicitly assumes that investors in some corporations are hiring managers based on their short-term performance, either because investors themselves are short-term oriented or because the short-term performance is the only thing that investors can easily assess when hiring a manager. Although this explanation for managerial short-termism resembles the investor short-termism hypothesis (i.e. both rely on the existence of some short-termist investors to explain short-termism), it is different given that the myopic behaviour of managers in a given corporation is here not caused by the presence of short-termist investors in that corporation, but rather by the (perceived) presence of short-termist investors in other corporations.

[31] This reasoning can be supported by a model of Narayanan (1985), which shows that managers, under reasonable assumptions, might be incentivized to behave myopically in order to enhance their perceived ability in the managerial labor market. See for a similar analysis: Campbell and Marino (1994).

[32] Roe (2013), pp 996-997; Walker (2010), p 441 (arguing that managers who intend to retire or leave the corporation in the near term might lack the incentives to invest for the long term).

[33] Bebchuk and Fried (2004), pp 23-79 (arguing that managers (and in particular CEOs) can have substantial influence over the design of their compensation packages (i.e. so-called "managerial power approach"), given that directors might be likely to support their plans due to self-interests (e.g. CEOs can impact the renomination of directors on the board) and given that (weak) shareholders and market forces might be unable to make the board adopt 'optimal' compensation packages).

term shareholder value.[34] Moreover, stock options, which lose their value if the share price falls below the strike price, might induce managers to undertake more risky strategies as managers benefit from a short-term appreciation of the stock price, but are not fully exposed to the downside risk of the chosen strategy.[35]

Some authors have challenged the idea that managers are inherently short-termist. For instance, Barzuza and Talley have argued that managerial overconfidence can lead to an excessive long-term perspective.[36] The idea is that overconfident managers tend to disproportionally overestimate the future returns of their long-term investments and thereby neglect short-term investment opportunities with superior returns. Following the authors' argumentation, the short-term pressure of some investors, as we described in the first hypothesis, might be a necessary counterweight to the inefficient long-term bias of managers.[37] However, it is possible to think about instances where managerial overconfidence might have the opposite effect, leading to underinvestment.[38] More generally, it can be argued that the long-term bias of managers does not necessarily lead to long-termism as it might be offset by managers' (ir)rational short-term incentives.[39] The net effect of managerial biases on the short- and long-term orientation is thus unclear.

Figure 2 summarizes this second hypothesis. In this hypothesis, in contrast to the investor short-termism hypothesis, the problem does not originate with institutional investors, who may be long-term oriented. In this hypothesis, managerial short-termism can persist because of a lack of accountability of management towards shareholders (the traditional managerial agency problem).[40]

Consider, for example, an index fund manager such as BlackRock, which has repeatedly emphasized that it takes a long-term approach with respect to investments.[41] However, the law

[34] Bebchuk and Fried (2004), pp 183-185; Bebchuk and Fried (2010), pp 99-100.
[35] Managers could thus to some extent become indifferent between an event with a "bad impact" on the firm value and an event with a "worse impact" and prefer to forego long-term investments that mitigate the downside risk for shareholders, such as investment in compliance. See for this insight: Armour et al. (2020), pp 25-26.
[36] Barzuza and Talley (2020), p 135.
[37] Barzuza and Talley (2020), pp 173-175.
[38] See, for example: Malmendier and Tate (2005), p 2662 ("If [overconfident CEOs] do not have sufficient internal funds, […] they are reluctant to issue new equity because they perceive the stock of their company to be undervalued by the market. As a result, they curb their investment"). See also, Heaton (2002), p 34.
[39] See for this insight, Kastiel (2020), pp 837-838.
[40] See for a discussion of the different agency problems in corporate law: Armour et al. (2017a), pp 29-30.
[41] See for example: Fink (2022).

and economics literature has shown that such index funds have few incentives to intensively monitor the corporations in which they invest.[42] In the managerial short-termism hypothesis, it is this lack of monitoring that allows the inherent short-termist preferences of managers and directors to have free rein. This is in contrast to the first hypothesis, which assumed short-term preferences of institutional investors that could be easily transmitted to managers. The outcome of the second hypothesis is the same as in the first hypothesis: a lack of long-term investment, allowing management to generate short-term profits and dividends for shareholders, at the cost of long-term shareholder value.

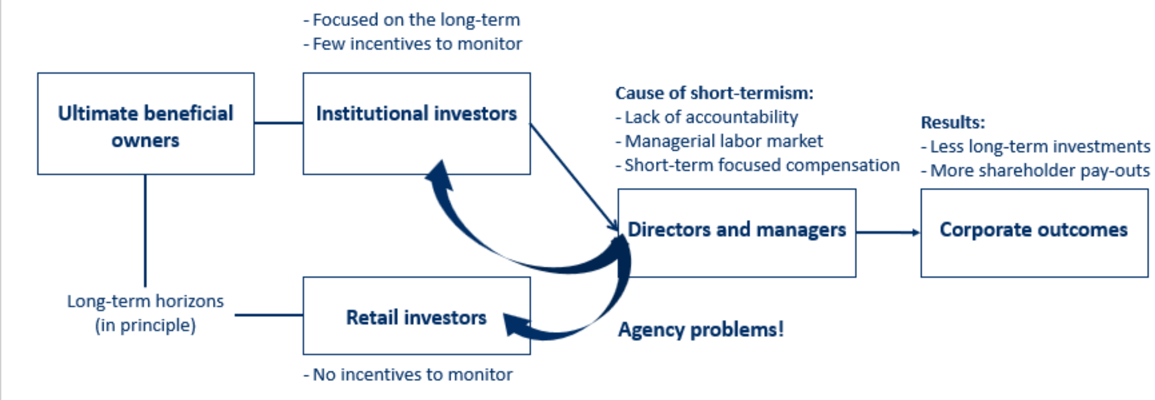

Fig. 2 second hypothesis of short-termism: managerial short-termism

2.3 The short-termism policy proposals matrix

Which of these two hypotheses better reflects reality is important, because the policy conclusions are quite different. In addition, it is also possible that both institutional investors and managers are short-termist, which calls for yet another policy approach. This leads to the 2-by-2 matrix in the table below.

First, it is possible that neither institutional investors nor managers are short-termist (bottom right cell of the matrix). In this case, there is no short-termism problem and no solutions are needed.

	Managers short-termist	**Managers not short-termist**

[42] See: Bebchuk and Hirst (2019).

Institutional investors short-termist	(1) Lengthen horizons of investors; (2) Make managers more accountable to shareholders (if (1) is successful)	(1) Lengthen horizons of investors; (2) insulate managers from shareholders
Institutional investors not short-termist	Make managers more accountable to shareholders	No problem, no policy implications

Table 1: the short-termism policy proposals matrix

Secondly, it is possible that institutional investors are short-termist, but that managers are not short-termist (upper right cell of the matrix). This is the pure investor short-termism hypothesis. In that case, the policy proposals are clear: try to lengthen the horizons of the institutional investors and insulate managers from the influence of shareholders (especially from short-termist institutional investors, to the extent that these investors can be distinguished). Several proposals have been formulated to accomplish the first objective. One proposal is that long-term share ownership could be encouraged by rewarding long-term shareholders, for example through additional voting rights – so-called ‘loyalty voting rights’. Another possible reform is to encourage institutional investors to think more in the long-term by banning quarterly reporting by corporations,[43] and/or by requiring more long-term oriented reporting.[44] Institutional investors could also be forced to disclose how their engagement policy relates to the corporation’s long-term performance, which could lead to a stronger long-term orientation.[45] Finally, to address the investor short-termism problem, managers could be insulated from (short-termist) shareholders, for example by erecting barriers to shareholder activism, by reformulating directors’ duties to make them less shareholder-friendly, or by allowing corporations to adopt takeover defenses and dual class share structures.[46]

[43] Willey (2019), pp 231-234 (arguing that abolishing quarterly reporting could encourage asset managers and institutional investors to think more in the long term); EY Study (2020), pp 91-93 (although the study in the end does not recommend that the EU adopts binding legislation on this topic).
[44] It can be argued that recent legislative initiatives regarding sustainability reporting also require the disclosure of information that will be relevant for long-term oriented investors. See: European Parliament and Council Directive 2022/2464 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting [2022] OJ L 322/15 (especially recital 2).
[45] Such an obligation is included in article 3g of the revised Shareholder Rights Directive in the EU, with the goal of facilitating long-term engagement (see recital 2 and 14-17). See: European Parliament and Council Directive 2017/828 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement [2017] OJ L 132/1.
[46] See, for example: Willey (2019), pp 231-234 (recommending isolation of the board from shareholders to a larger extent as a solution against short-termism); EY Study (2020), pp 73-79 (recommending a reformulation of

Thirdly, it is possible that managers are short-termist, but institutional investors are not (lower left cell of the matrix). This is the pure managerial short-termism hypothesis. In that case, the solution would be to make managers more accountable to shareholders – the opposite of what was recommended for the investor short-termism hypothesis. For example, shareholder activism and shareholder stewardship could be encouraged, dual class share structures could be banned, shareholders could be given a 'say on pay', …

Finally, both managers and institutional investors could be short-termist (upper left cell of the matrix). In that case, the policy implications are more complex. If policymakers could succeed in lengthening the horizons of institutional investors (for example through the proposals mentioned above), they would also have to ensure that managers become accountable to the (now long-term) shareholders (for example through the proposals mentioned in the previous paragraph) to solve managerial short-termism. However, if policymakers cannot ensure that institutional investors are forced to focus on the long term, making managers more accountable to shareholders may make things worse. Policymakers could try to make managers think more in the long term, without making them accountable to shareholders, but it is difficult to see how this could be accomplished without excessive legislative intervention in the governance of corporations. In any case, the policy conclusion would be to shift power to those actors (shareholders or managers) whose short-termism is the easiest to solve.

The analysis above illustrates that the policy proposals above are sometimes conflicting. For example, depending on which hypothesis of short-termism one believes in, shareholders are either the problem and the solution is to isolate the board from the shareholders, or shareholders are the solution and the accountability of managers towards shareholders should be strengthened. In addition, questions can be raised with regard to the effectiveness of these proposals in combatting short-termism, and with regard to their disadvantages.[47] This paper is not the place to evaluate the costs and benefits of these policy proposals. The focus of this paper is on analyzing whether these policy proposals still make sense when corporations have a controlling shareholder, as will be done in section 5 of this paper.

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directors' duties towards the long term and towards stakeholders as a solution against short-termism); Lipton and Rosenblum (1991).

[47] For example, insulating managers from shareholders to combat investor short-termism would likely also increase managerial agency costs. See: Bebchuk (2013), pp 1679-1681.

3. Empirical evidence for corporate short-termism

Of course, the hypotheses discussed above are only theoretical possibilities of how short-termism could originate. The question of whether short-termism really exists and how it may originate must be answered with empirical evidence. Hereunder, we provide a brief overview of the most relevant empirical studies for corporate short-termism. Our aim is not to be exhaustive, as there are simply too many empirical studies to cite. Instead, we focus on summarizing the empirical studies that were covered in recent reviews of the literature.[48]

A first type of empirical study of short-termism looks at macroeconomic trends to examine whether the increased financialization of the corporate landscape in recent years has led to increased short-termist behavior by corporations. A well-known example is the EY Study, which claimed to find empirical evidence that shareholder pay-outs (the sum of dividends and share buybacks) as a percentage of net income show a growing trend in Europe in recent years.[49] In contrast, capital expenditures ('capex') and research and development ('R&D') expenditures, also measured as a percentage of net income, show a declining trend, according to the EY Study. The EY Study sees this as evidence of short-termism: corporations feel obliged to distribute more and more cash to shareholders, leaving nothing for long-term investments. This can be evidence of either investor short-termism or managerial short-termism (or both).

However, the EY Study has been heavily criticized for its flawed empirical methodology.[50] For example, corporations with negative net income were excluded from the sample without good reason. In addition, net income already includes R&D expenditures, so it is not a good measure of the income available for investment. Also, the EY Study looked only at shareholder pay-outs, without taking into account the capital that shareholders injected into corporations through capital increases over the same period. Controlling for these deficiencies, Fried and Wang find in an empirical study on European listed corporations that the increase in shareholder payouts between 1992 and 2019 is much lower and less alarming than reported in the EY Study.[51] They also find that long-term investments have remained stable over time and that corporations have

[48] We have focused on the empirical studies discussed by: Roe (2022), pp 77-112; Sautner (2020); Sautner (2023). These reviews mainly focused on empirical studies published in the top journals in finance, management and accounting, such as The Review of Financial Studies, Review of Finance, Journal of Corporate Finance, Journal of Financial Economics, Strategic Management Journal, … .
[49] EY Study (2020), pp 9-22.
[50] See, for example: Roe et al. (2021); Edmans (2020).
[51] Fried and Wang (2021) (the study analyses net shareholder pay-outs (shareholder pay-outs minus share issuances) as a percentage of R&D-adjusted net income).

more cash on their balance sheets than ever. This suggests that shareholder pay-outs have not reduced opportunities to invest for the long term.

In addition, there is a more fundamental problem with such macro-economic studies. Even if there was a rising trend in shareholder pay-outs and a declining trend in investment, it is not clear why the initial levels should be considered optimal.[52] Indeed, it is also possible that there used to be too few shareholder pay-outs and too many investments, or that the trend for listed corporations was offset by an increase in investments in unlisted corporations, which are generally younger and more dynamic.[53] In any case, the currently available macro-economic studies do not offer evidence that short-termism impacts the economy as a whole.

Nevertheless, it is possible that short-termism poses a problem for some corporations. Therefore, it is worth looking at some micro-economic studies as well. One of the best-known and most cited studies in the short-termism debate is the study by Graham, Harvey and Rajgopal, who surveyed 312 CFOs of listed corporations.[54] 78% of these CFOs responded that they would sacrifice long-term value to meet short-term profit targets. This result can be interpreted as evidence of the presence of short-termist behavior. However, Roe has criticized this interpretation of the survey and argued that a different aggregation of the results leads to less alarming conclusions.[55] Nevertheless, there is some evidence that corporations do try to hit earnings targets, for example through share repurchases, even at the expense of long-term investments and long-term productivity.[56] In addition to earnings targets, it is often argued in public discourse that the obligation of corporations to publish quarterly financial reports adds to the short-termist pressure on managers.[57] However, the empirical evidence on the frequency of financial reporting is inconclusive, with some studies finding that an increased reporting frequency is associated with fewer long-term investments, while other studies find no such effect.[58]

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[52] Roe et al. (2021), p 139.
[53] Roe et al. (2021), pp 139-140.
[54] Graham et al. (2005).
[55] Roe (2022), pp 95-96 (arguing that an alternative aggregation of the results finds that 74% of respondents would not make more than a small sacrifice to meet their profit goals, which shows that if short-termism exists, it is not a big problem).
[56] See for example: Almeida et al. (2016); Almeida et al. (2022).
[57] Roe (2022), pp 132-135; Willey (2019), pp 85-88.
[58] See, for example: Ernstberger et al. (2017) (finding that an increased reporting frequency in the European Union after the Transparency Directive of 2007 is associated with an increase in managerial myopic behavior, proxied by real activities manipulations); Kraft et al. (2018) (finding based on historical data from 1950 to 1970 that an increased reporting frequency in the US is correlated with less investment). But see also: Nallareddy et al. (2021)

Another well-known study is the study by Asker, Farre-Mensa and Ljungqvist.[59] This study concludes that listed corporations invest less and are less responsive to changes in investment opportunities than comparable unlisted corporations. The authors explain this result by arguing that unlisted corporations are not subject to short-termist pressures by investors. One problem with this study, however, is that truly successful and fast-growing listed corporations are not included in the comparison, because their size makes them incomparable to even the largest unlisted corporations.[60] Another study attempts to control for this effect with a more sophisticated matching methodology and finds no significant difference between comparable listed and unlisted corporations in terms of investments.[61] Yet another study relies on a more detailed dataset with corporate investments and concludes that listed corporations even invest more than comparable unlisted corporations.[62] In conclusion, the idea that listed corporations systematically invest less because of short-termist pressures is not supported by the empirical evidence.

There is also some evidence on whether investors with shorter holding periods, so-called transient institutional investors,[63] have a negative effect on short-termism. For instance, a paper by Bushee finds that although institutional ownership seems to have a positive effect on R&D spending, the presence of transient institutional investors leads managers to reduce R&D in order to boost current earnings.[64] The paper of Bushee has also been extended by other research finding various negative effects of short-term investors.[65] However, these studies do not provide strong causal inferences. More convincing evidence of short-termism is a study by Cremers, Pareek and Sautner, which uses index inclusion to establish a causal relation between transient ownership and corporate short-termism and finds evidence that an increase in the number of

(finding that the imposition of an increased reporting frequency in the UK between 2007 and 2014 had no effect on (long-term) investment).

59 Asker et al. (2015).

60 Roe (2022), pp 99-101.

61 Maksimovic et al. (2019) (comparing only unlisted corporations that were already comparable to listed corporations at their inception).

62 Feldman et al. (2021).

63 Transient institutional investors can be defined as investors that have a diversified portfolio with high portfolio turnover and that engage in momentum trading. See: Bushee (1998), p 307.

64 Bushee (1998).

65 For example: Derrien et al. (2013) (finding that short-term investors are associated with fewer investment and more shareholder payouts when the corporation is undervalued); Harford et al. (2018), p 434 and p 436 (finding that short-term investors are associated with more managerial misbehavior such as financial fraud, accounting misconduct and earnings management); Gaspar et al. (2005) (finding that short-term investors underperform in the market of corporate control, both as shareholders of the target corporation and the bidder corporation).

short-termist investors leads to a decrease in R&D investment.[66] The study also shows that such an increase in short-termist investors positively impacts the short-term earnings and leads to a temporary appreciation of the stock price, which is reversed in the long run. This seems strong evidence for the first hypothesis of short-termism, where short-term behavior is caused by short-term investors. However, this conclusion also needs to be qualified: the study only examines corporations in the Russell 2000, which is limited to small-cap corporations, and the impact on investment is economically speaking fairly small[67]. Therefore, this study does not support the conclusion that short-termism is a major problem.

In the investor short-termism hypothesis, an important part of the theory is how short-termism is transmitted from investors to managers and directors. One of the possible transmission channels is shareholder activism, mainly by hedge funds. The idea is that activists pressure managers to increase the short-term profits and the short-term stock price, after which the activists sell their shares and do not suffer when the stock price later plummets.[68] However, the problem with this theory is that several empirical studies convincingly show that hedge fund activism on average increases shareholder value, even in the long run and both in the US and in other countries.[69] Studies also find that corporations that are targeted by hedge fund activists improve their production and innovation efficiency and become less susceptible to CEO empire-building.[70] That being said, other studies find that hedge fund activism has a neutral effect on firm value[71] and a negative impact on other stakeholders[72]. Commentators have also critiqued the presented empirical findings and argued that hedge activism in a given corporation

[66] Cremers et al. (2020).

[67] This can be explained by the fact that only a minority of investors (about 13% according to the study) can be qualified as short-termist.

[68] See for this idea: Strine (2010); Lipton (2013).

[69] See, for example: Bebchuk et al. (2015) (with regards to the US); Becht et al. (2017) (with regards to other countries than the US); Brav et al. (2022) (a recent literature review with updated evidence on the US).

[70] See, for example: Brav et al. (2015) (finding that hedge fund activists improve the productivity of the plants of the targeted corporations and facilitate the efficient allocation of capital in these corporations); Brav et al. (2018) (finding that although corporations that are targeted by hedge fund activists significantly reduce their R&D spendings, they on average improve their innovation output (measured by the number of patents and the number of patent citations) and innovation efficiency by focusing on their core areas of expertise); Gantchev et al. (2020), p 527 (finding that hedge fund activists can curb CEO empire building in the target corporations "by limiting incentives to engage in value-destroying acquisitions as well as reducing reluctance to divest assets").

[71] See, for example: deHaan et al. (2019), p 536 ("Overall, our results do not strongly support the hypothesis that activist interventions drive long-term benefits for the typical shareholder, nor do we find evidence of shareholder harm").

[72] See, for example: DesJardine and Durand (2020), p 1056 ("[The] benefits [of activist hedge funds] appear to be shareholder-centric and short-lived, reflected in immediate increases in market value and profitability; however, these increases come at a mid- to long-term cost to other stakeholders […]"); Agrawal and Lim (2022) (suggesting that hedge fund activism (partly) effects a transfer of wealth from employees to shareholders); Klein and Zur (2011) (suggesting that hedge fund activism (partly) effects a transfer of wealth from bondholders to shareholders).

may still destroy long-term firm value.[73] In addition, focusing on the average effect of shareholder activism ignores the impact of the threat of activism on corporations that do not experience an activist campaign.[74] Research in this regard finds that the threat of activism induces corporations to improve profitability, reduce long-term investments and increase shareholder payouts,[75] which could be evidence of short-termism. However, a more positive interpretation of these results is that (the threat of) hedge fund activism has a disciplining effect on managers, improving both the short- and long-term performance of a corporation.[76] Overall, we conclude that although hedge fund activism might not improve the long-term value of all targeted and non-targeted corporations, the evidence does not indicate that (the threat of) hedge fund activism leads to a systematic short-termism problem.[77]

A second transmission channel of short-termism is short-termist compensation of managers and directors. Here, the empirical evidence for a causal link with corporate short-termism is the strongest. Indeed, several studies in the US conclude that if the CEO of a corporation has more short-term compensation incentives (such as 'vested equity'[78]), this is associated with short-term behavior by the corporation, such as scaling back investments.[79] These papers show that short-term incentives contribute to short-termist corporate behavior, although it has not been shown that this is a large and systemic problem, as these studies focus on corporations with vested equity compensation. These studies also do not show which hypothesis of short-termism is at the root of the problem: is the excessively short-term focused executive compensation caused by demands for such a compensation structure by shareholders, or by a lack of accountability towards shareholders with regard to executive compensation? A study by Flammer and Bansal suggests that the latter may be more likely.[80] The authors find that

[73] See, for example: Coffee and Palia (2016), p 551 ("The distribution of the returns from hedge fund activism shows high variance, with a significant percentage of firms experiencing abnormal stock price losses; thus an individual company may be well advised to resist an activist's proposal, even if such proposals enhance shareholder value on average").
[74] Coffee and Palia (2016), p 552.
[75] See, for example: Maffett et al. (2022); Gantchev et al. (2019).
[76] See more in general: Bebchuk (2021), pp 44-45.
[77] It should also be noted that shareholder activism is relatively rare outside the US, even when viewed proportionally to the number of listed corporations, which further casts doubt on the idea that shareholder activism is a major contributor to short-termism in other countries than the US. See in this regard: Becht et al. (2017), p 2939; Maffett et al. (2022), p 6.
[78] 'Vested equity' includes shares and options that can be sold or exercised immediately by the CEO.
[79] Edmans et al. (2017a) (having more vested equity is associated with a reduction in investments, which is in turn associated with positive earnings guidance, after which CEOs sell their shares); Edmans et al. (2022) (more vested equity leads to more takeovers and share buybacks, after which CEOs sell their shares and the long-term stock prices goes down); Ladika and Sautner (2020) (vesting of stock options leads to the elimination of investments, which boosts the stock price in the short term, after which CEOs sell their shares).
[80] Flammer and Bansal (2017).

shareholder proposals to the general meeting to make remuneration more long-term oriented are associated with an increase in the number of investments and better corporation performance. This suggests that the problem of short-term executive compensation could be addressed by stronger accountability to shareholders. It is also important to note that outside the US, and especially in continental Europe, the problem of short-term focused executive compensation may be less important.[81]

Finally, there is empirical evidence that managers are inherently focused on the short term, as assumed in the second hypothesis of managerial short-termism.[82] For example, the assumption that managers are eager to achieve good results during their tenure is supported by a study that finds that CEOs invest more in research and development during their first years at the corporation than during their later years (when they arguably have shorter time horizons).[83] There is also empirical evidence that older CEOs (who arguably have shorter time horizons) invest less than younger CEOs.[84] However, these studies do not necessarily support the conclusion that short-termism is a widespread problem, as accountability to shareholders may limit the impact of these problems in practice.

The conclusion of the above review of the empirical evidence is nuanced. While some studies find evidence of short-termism, many studies can also be criticized, and most studies do not necessarily show that there is a large and systemic problem of short-termism among listed corporations. It is also not clear which of the two hypotheses of short-termism would be the cause of the short-termism problem, should there be one.

4. The impact of controlling shareholders on corporate short-termism

Many of the studies discussed above involved US corporations. This may explain why these studies and the broader literature on short-termism have largely ignored the impact of controlling shareholders on corporate short-termism, as controlling shareholders are relatively uncommon in the US, especially compared to continental Europe.[85] This is an important omission, as the presence of a controlling shareholder can have a significant impact on whether

[81] For instance, shares and stock options make up a smaller proportion of total compensation outside the US (19%) than in the US (42%). See: Edmans et al. (2017b), p 423.
[82] See for a similar conclusion: Roe (2022), pp 117-118.
[83] Dechow and Sloan (1991). See also in this regard: Serfling (2014) (finding that older CEOs prefer less risky investment policies and, for instance, invest less in R&D expenditures).
[84] Garfinkel et al. (2013); Li et al. (2017).
[85] Aminadav and Papaioannou (2020), p 1205.

short-termism can exist, and this for both the investor short-termism hypothesis and the managerial short-termism hypothesis.[86]

Some papers have considered the role of controlling shareholders in the short-termism debate. For instance, some literature from the 1980s and 1990s commented on the declining competitiveness of US corporations, with their typically dispersed shareholder structures, compared to international rivals in countries such as Japan and Germany, where dedicated blockholders were said to have a long-term orientation.[87] However, the findings of these articles are not part of the current short-termism debate and are no longer up to date.

Other more recent papers have mentioned the possibility that certain (types of) controlling shareholders are more long-term oriented,[88] but none of these papers present a comprehensive analysis of this issue. A paper by Strand critiques the policy proposals to combat short-termism by the European Commission after the global financial crisis of 2007-2008 and argues that (long-term oriented) blockholders and controlling shareholders can mitigate the pressure of short-term investors.[89] However, Strand does not systematically analyze the long- and short-term incentives of controlling shareholders and their impact on the short-termism debate. In addition, a paper by Choi argues that controlling shareholders generally have a long-term horizon, because they are incentivized to stay with the corporation to retain their non-transferable private benefits of control.[90] In this section, we build on Choi's framework, but we

[86] See for a similar conclusion that controlling shareholders can solve the short-termism problem, but with the arguments formulated differently: Pacces (2023), pp 12-13.
[87] See for a brief overview of the short-termism debate in the 1980s-1990s: Willey (2019), pp 46-51; Laverty (1996) p 825 et seq. See for some studies of this period: Porter (1992), pp 8-9 (arguing that transient owners in the 'fluid capital' system of the US are more focused on short-term results compared to long-term owners in the 'dedicated capital' systems of Germany and Japan); Franks and Mayer (1997), p 44 (stating that dispersed shareholders in the US and UK cannot make the same strategical (long-term) commitments to stakeholders as concentrated owners in continental Europe, which in some instances may be suboptimal); Roe (1993), p 1987 (noting that the concentrated shareholder structure in Germany and Japan improves the flow of information from the corporation to shareholders, which in turn could alleviate a short-termism problem); Moerland (1995), p 29 (claiming that market-oriented systems (e.g. US and UK) in comparison to network-oriented systems (e.g. continental-European countries and Japan) are more exposed to the 'danger of short-termism'); Poterba and Summers (1995), p 43 (providing survey-based evidence that shows that "U.S. CEOs [in 1990] believed that their firms had systematically shorter time horizons than their major competitors in Europe and (especially) Asia").
[88] See, for example: Willey (2019), p 5 (noting that "short-termism may be more or less pronounced depending on the corporate structure, and particularly, the presence of a dominant shareholder", but not fully analyzing the impact of controlling shareholders on short-termism); Block (2009), p 54 (focusing only on the long-term incentives of family firms); Thomsen et al. (2018) (focusing only on the long-term incentives of industrial foundations); Kavadis and Thomsen (2023) (analyzing the existing literature on the relation between long-term ownership and corporate sustainability).
[89] Strand (2015), p 22 and pp 37-38.
[90] Choi (2018).

also go further by providing a more comprehensive and nuanced analysis of the impact of controlling shareholders on corporate short-termism.

4.1 Controlling shareholders in the two hypotheses of short-termism

In the investor short-termism hypothesis, controlling shareholders can block the transmission channels. For example, shareholder activism becomes more difficult in a controlled corporation, because an activist hedge fund is unlikely to win a vote in the general meeting if the controlling shareholder supports the board.[91] In addition, because of their (generally) large financial stake and high percentage of voting rights, controlling shareholders also have the incentives and ability to monitor executive compensation, which should prevent executive compensation from incentivizing short-term behavior.[92] Moreover, a temporary decrease in the stock price caused by an exit of institutional investors who unduly react to weak short-term earnings, will be less of a concern to controlling shareholders, who are generally better informed about the fundamental value of the corporation.[93] These arguments suggest that investors' short-termism is less easily transmitted to managers in the presence of a controlling shareholder.

Controlling shareholders also have an important impact in the managerial short-termism hypothesis. In this hypothesis, the problem of short-termism arises from a lack of accountability to shareholders, i.e., the classic agency problem between shareholders and managers. Controlling shareholders reduce that agency problem, because their large ownership stake gives them the incentives and ability to monitor management.[94] For example, controlling shareholders can use their voting rights to nominate directors who will stay with the corporation for the long term and commit to evaluating these directors' performance on a long-term basis only. Controlling shareholders can also monitor that executive compensation is calculated on

[91] Kastiel (2016), p 65 ("engagements with controlled companies should be rare, at least according to the conventional theory, since the presence of a controlling shareholder dramatically reduces the chances of a successful activist campaign"). Kastiel also nuances this idea, however, arguing that "although controlled companies are more insulated from activism than widely held companies, they are not fully immune to it" (p 67).

[92] Bebchuk and Hamdani (2009), p 1284 ("Diversion of value through executive compensation, however, is a concern of lesser importance in [controlled] companies than in [non-controlled] companies"); Kastiel (2015), p 1134 ("Controlling shareholders, the theory suggests, have both the ability and the incentive to monitor executive pay"). Kastiel qualifies this conclusion, however, by arguing that controlling shareholders may have an incentive to extract private benefits of control through executive compensation. This issue is discussed further below.

[93] However, as we discuss below in section 4.2, there might be instances in which controlling shareholders do care about the short-term stock price.

[94] Gilson and Gordon (2003), p 785 ("the presence of a large shareholder may better police management than the standard panoply of market-oriented techniques"); Bebchuk and Hamdani (2009), p 1281 ("controlling shareholders commonly have both the effective means to monitor management and the incentives to do so").

the basis of long-term performance, in order to discourage short-termist behavior by executives. In short, controlling shareholders can prevent that the short-termism problem arises among managers and directors by influencing their incentives.

4.2 Controlling shareholders' long-term and short-term incentives

In both hypotheses of short-termism, controlling shareholders can solve the short-termism problem. However, the question is whether controlling shareholders themselves are long-term oriented, or also suffer from a short-termist mindset.

A first reason why controlling shareholders may be more inclined to think in the long term is the size and illiquidity of their financial participation in the corporation. Controlling shareholders typically hold a relatively large financial stake in a corporation,[95] and are therefore to a large extent exposed to the long-term value that the corporation can generate. A controlling shareholder could try to improve short-term results, for example by delaying value-creating investments, and try to sell their stake before the long-term decline in value becomes apparent to the buying shareholders. However, a large participation would probably be too illiquid to sell on the open market,[96] so a controlling shareholder will likely have to sell the participation to a sophisticated buyer in a block trade, in which case the buyers will normally conduct some due diligence on the corporation.[97] To the extent that this is apparent from the due diligence, the buyers will probably not want to pay for an improvement in short-term performance that is accompanied by a reduction in long-term value, unless the buyer itself believes that it will only hold the stake for a short term and can somehow resell it to someone who will not see through the short-termist trick.

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[95] This may not be the case if the cash flow rights are separated from the voting rights, for example through a dual class share structure or a pyramid structure. In that case, the controlling shareholder is less exposed to the long-term value of the corporation. However, in practice, the controlling shareholder would probably still hold a significant part of his wealth in shares in the corporation. He would likely also be locked in for the long term, due to the need to sell to a sophisticated buyer if the controlling shareholder wants to monetize their control premium and due to the presence of non-transferable private benefits of control (see below).

[96] One of the main problems with selling a substantial amount of shares on the open market is that it has an adverse effect on price. However, Choi argues that there might be several methods for a controlling shareholder to liquidate its participation without (severely) impacting the selling price (for instance, by selling anonymously and off the market via an agent or via private venues such as dark pools). See: Choi (2018), p 68 (footnote 45). Nevertheless, it is unlikely that a controlling shareholder is able to cash in on its short-term actions and quickly sell a substantial amount of shares at an inflated price, especially considering the rules on the disclosure of share ownership.

[97] This is especially true when the sale of the controlling participation triggers the mandatory bid rule, forcing the buyer to buy all the other shares in the corporation at the same price. See article 5 of the Takeover Bid Directive: European Parliament and Council Directive 2004/25/EC on takeover bids [2004] OJ L 142/12.

A second argument for why controlling shareholders contribute to the long-term orientation of a corporation is that they have better incentives to collect information on the corporation's fundamental value.[98] For individual shareholders in a corporation with dispersed ownership, it is often not efficient to collect and evaluate complex, technological information about, for instance, long-term investment projects, as the perceived benefits of gathering such information do not outweigh the incurred costs.[99] Such individual shareholders may rather focus on less complex, short-term earnings reports and (indirectly) encourage managers to forgo long-term investments that would depress current earnings. In contrast, controlling shareholders have sufficient financial incentives, due to their large equity participation, to be informed and to closely engage with managers. More generally, controlling shareholders can reduce the informational asymmetries between managers and shareholders and commit themselves to the corporation for the long term, which in turn alleviates the short-termism induced by, for instance, signal-jamming actions of managers, as developed by Stein's model.[100]

A third argument for the long-term perspective of controlling shareholders is the existence of non-transferable private benefits of control. According to the standard definition, private benefits of control encompass the value enjoyed by the persons in control that is not shared with the other shareholders in proportion to their share percentage.[101] Several types of private benefits of control can be distinguished: 'diversionary' private benefits of control, which follow from the diversion of corporate assets to the controller; 'distortionary' private benefits of control, which follow from the management of the corporate assets in the controller's personal interest instead of in the shareholders' interest generally, including empire building and extravagant perquisites; and 'idiosyncratic' private benefits of control, which is the value needed to induce the controller to undertake firm-specific investments, and which includes the pride and psychological satisfaction the controller enjoys from controlling the corporation.[102] Choi has developed an economic model in which private benefits of control are non-transferable, which makes it less interesting for controlling shareholders to transfer their

[98] See for a similar analysis with respect to (large) blockholders: Roe (1994), pp 240-241; Roe (2013), pp 991. See also: Edmans (2009) (arguing that even blockholders that vote with their feet, can encourage managers to invest in long-term projects as they are able to gather and trade on intangible information).
[99] It could be argued that there exist economies of scale in collecting and evaluating complex information. See: Roe (1994), pp 240-241.
[100] Hermalin and Weisbach (2017), p 130 (illustrating that controlling shareholders who can commit to never sell their shares are able to avoid signal-jamming behavior by managers). See above in Section 2.1 for a discussion of Stein's signal-jamming model.
[101] Dyck and Zingales (2004), p 541.
[102] Pacces (2012), pp 83-115.

participation, as they will not be able to monetize the private benefits of control.[103] Choi argues that this reduced liquidity of the participation also reduces corporate short-termism: because controlling shareholders cannot sell their participation without losing the private benefits of control, they are forced to take a long-term perspective.

However, Choi's assumption that private benefits of control cannot be transferred is too restrictive: certain types of private benefits of control, such as the diversionary and distortionary private benefits of control, can be transferred by transferring control. Even certain idiosyncratic private benefits can be transferred, as the buyer may also enjoy pride from owning a corporation. Such private benefits can still be monetized by the controlling shareholder if the buyer is willing to pay a control premium. However, there may still be a positive impact on the long-term orientation of the existing controlling shareholder, as the buyer of a controlling stake in a listed corporation will likely be a sophisticated actor, who will conduct due diligence and be able to protect himself against short-termist manipulations of the existing controlling shareholder. In the EU, private benefits of control are also harder to monetize for controlling shareholders, because the mandatory bid rule prohibits the transfer of a controlling participation without offering the same bid price to all shareholders. This again locks in the controlling shareholder, giving them a long-term view.

In addition, certain types of private benefits of control are indeed hard to transfer, because they are so closely associated with the person of the controlling shareholder. Consider, for example, the value that a family shareholder places on maintaining family control over the corporation across generations.[104] The value attached to control over the corporation cannot easily be monetized in the event of a sale of the participation, so the controlling shareholder is to some extent locked in with regard to the corporation and must therefore take a long-term perspective. Another example is a state-owned corporation where the government attaches some form of national pride to the control over the corporation, which may be (historically) important for the national socio-economic fabric, or where the government may pursue some public interest objectives through control over the corporation. These de facto non-transferable private benefits

[103] Choi (2018).
[104] Anderson and Reeb (2003), p 1303 ("[F]ounding families have concerns and interests of their own, such as stability and capital preservation, that may not align with the interests of other investors or the firm"); Kavadis and Thomsen (2023), p 202 (arguing that family shareholders have long-term incentives because they desire to preserve so-called 'socio-emotional wealth' and to transfer welfare to future generations).

of control reduce the liquidity of the controlling shareholder's participation and therefore encourage long-term behavior.

Finally, Choi's model assumes that as a controlling shareholder's share ownership increases, private benefits of control decrease.[105] That may be true for certain types of private benefits of control, in particular, diversionary private benefits of control (as there are fewer minority shareholders from whom value can be diverted) and distortionary private benefits of control (as the larger financial stake ensures that controlling shareholders' incentives are less distorted). However, idiosyncratic private benefits of control will probably not decrease as a controller's share ownership increases, and may even increase, as controllers more closely associate themselves with the corporation. In addition, at very high levels of ownership, a controlling shareholder will be unlikely to be able to liquidate their whole participation by simply selling in the market, making a block trade with a sophisticated buyer necessary. Again, this reduces the scope for short-termist behavior. For this reason, Choi's claim that corporate short-termism will re-emerge at high levels of concentrated share ownership seems implausible.

The conclusion from the analysis above is that the size of the participation of the controlling shareholder and the presence of private benefits of control that can only be transferred by transferring a control block, 'lock' in controlling shareholders and give them a long-term perspective.

However, private benefits of control may also give controlling shareholders incentives that deviate from long-term value creation, for example by 'stealing' (diversionary private benefits of control) or 'shirking' (distortionary private benefits of control). Some private benefits of control may also specifically lead to short-termist behavior.[106] For example, a controlling shareholder who is also the CEO might choose to link their compensation as CEO to a larger extent to short-term results, because these results are easier to manipulate. If their remuneration is criticized, the controlling shareholder-CEO can defend themselves by arguing that the remuneration is in line with the (short-term) results. This hypothesis has support in the empirical evidence: some empirical studies have already concluded that remuneration in controlled

[105] Choi (2018), p 89.
[106] See for the argument that private benefits of control can lead to short-termism in family-controlled corporations: Block (2009), p 52.

corporations is higher and less sensitive to performance,[107] although to our knowledge no research has been done specifically on the short-term orientation of remuneration.

Another typical example of a private benefit of control derives from the control over shareholder pay-outs. For example, a controlling shareholder in need of cash might cause the corporation to pay a dividend or even if the corporation actually needs the money to realize valuable investment opportunities and the dividend is therefore value-destroying. Consider, for example, the case of a family shareholder who urgently needs money for private expenses, such as the purchase of a (new) family home. Or think of a listed state-owned corporation where the state could use an extra dividend to balance its budget and where the politicians controlling the corporation have a relatively short time horizon due to regular elections.

Another situation that can cause a corporation to miss out on valuable long-term investments occurs when the controlling shareholder wants to maintain control over the corporation (and the associated private benefits of control), but does not have sufficient resources to participate in a capital increase that is necessary to finance the investments. This could lead to the controlling shareholder blocking capital increases that are necessary for the corporation to expand, harming long-term shareholder value.

In some other situations, controlling shareholders may also care more about the short-term stock price than about the long-term cash flows of the corporation, causing the controlling shareholder to engage in short-termism. For example, controlling shareholders may have short-term preferences regarding the stock price if they want or anticipate[108] to sell a part of their participation on the stock market, or if they use their shares as collateral for debt and they are facing a margin call. In addition, controlling shareholders may have an interest in boosting the short-term stock price if they are able to issue overpriced equity to the market and by doing so reduce the corporation's cost of capital[109] or finance (potentially value-destroying) acquisitions[110].

[107] See for an overview of the evidence and new empirical evidence: Kastiel (2015). However, other studies find that family controlling shareholders have a negative impact on CEO compensation: Croci et al. (2012).

[108] Controlling shareholders may anticipate that they need to liquidate a fraction of their capital participation as a result of a potential liquidity shock.

[109] See: Bolton et al. (2006), p 580 and pp 595-597 (providing an economic model that illustrates that "[…] even long-term-oriented shareholders may want to pursue short-termist strategies in particularly speculative stock market environments as a way of reducing the firm's cost of capital").

[110] See for the idea that the issuance of overvalued equity can in some cases benefit long-term shareholders at the expense of long-term firm value: Fried (2015), p 1566 and pp 1607-1613.

Of course, these examples of extraction of private benefits of control are only beneficial for the controlling shareholder to the extent that the private benefits exceed the damage suffered by the controlling shareholder as a (long-term) shareholder. The incentive to extract private benefits of control therefore increases as the controlling shareholder holds a smaller financial participation in the corporation, for example because of a dual class share structure.[111] In addition, the distortionary and diversionary private benefits of control may also be limited by rules that protect minority shareholders (as we discuss further in section 5), as well as by market forces, such as product market competition or capital markets if the corporation needs to raise additional capital, although none of these constraints can eliminate all such private benefits of control.[112]

Finally, for the sake of completeness, controlling shareholders may also be inefficiently long-term oriented, which is known as "hyperopia".[113] In this case, a controlling shareholder erroneously applies too low a discount rate to future cash flows, for example, due to behavioral biases. On the other hand, behavioral biases can also cause an excessive focus on the short term ("myopia"),[114] so few systematic conclusions can be drawn from this.

The conclusion of the analysis above is that controlling shareholders have stronger incentives to think in the long term than other shareholders due to the size and illiquidity of their holdings. However, that mechanism does not necessarily guarantee a long-term orientation because controlling shareholders may also enjoy private benefits of control, which may have a positive or negative impact on their long-term orientation, depending on the situation. Therefore, the net impact of the presence of a controlling shareholder on corporate short-termism is an empirical one.

4.3 Empirical evidence on controlling shareholder short-termism

[111] Kastiel (2015), pp 1148-1151. See Section 5 below for a further discussion on dual-class shares.

[112] Bebchuk (1989a), pp 1844-1846 (discussing the limits of the disciplinary effect of the market for additional capital and of product market competition) and p 1847 (arguing that the managerial labor market and the market for corporate control cannot discipline the management of the corporation in the presence of a controlling shareholder).

[113] Enriques et al. (2014), p 92 and p 94. See also: Barzuza and Talley (2020) (arguing that corporate managers are often biased towards the long-term).

[114] See, for example: Thaler et al. (1997).

Unfortunately, the impact of controlling shareholders on corporate short-termism has received little attention in empirical studies, although there are a few relevant studies. For example, Puca and Vatiero find that shareholder concentration leads to more innovation (as measured by the number of patents and patent citations) in Swiss corporations.[115] This supports the idea that controlling shareholders can help to reduce short-termism.

Other studies do not directly study the link between controlling shareholders and long-term corporate behavior, but rather between controlling shareholders and financial performance (as measured, for example, by 'Tobin's Q'), which also provides some indication of the net positive impact of controlling shareholders. Here, the empirical evidence is inconclusive. For example, a study by Morck, Shleifer and Vishny finds that shareholding by managers in the US is positively associated with corporation value below 5%, negatively associated between 5% and 25%, and positively associated again above 25%.[116] A more recent study confirms these results for large corporations in the US, but finds an overall negative association between managerial ownership and firm value when the sample is extended to smaller corporations.[117] In contrast, another study, this time of East Asian corporations, finds that the size of the largest shareholder's participation is positively correlated with firm value.[118] Another paper points out that shareholder concentration is endogenous: it is determined by several factors that may also have an impact on the value of the corporation, which makes establishing a causal relationship difficult. Once this study has taken endogeneity into account, the association between shareholder concentration and corporation value seems to disappear.[119] This finding is consistent with the idea that controlling shareholders have both advantages and disadvantages and that the optimal shareholder structure may vary from corporation to corporation. Other research has suggested that firm value impacts ownership concentration, but not the reverse.[120] This highlights the issue with existing research on the impact of controlling ownership: research

[115] Puca and Vatiero (2017). The authors use the introduction of takeover law as an exogenous shock that led to a less concentrated ownership structure, making causality at least plausible.
[116] Morck et al. (1988). Another study in the US with a larger sample finds a positive association between managerial ownership and firm value up to a threshold of 40-50%, but a slight negative association afterwards. See: McConnell and Servaes (1990).
[117] Fabisik et al. (2021). It should be noted, however, that this study does not argue for a causal link, but argues that the liquidity of the shares has a negative impact on managerial ownership, and that liquidity is positively associated with financial performance.
[118] Claessens et al. (2002).
[119] Demsetz and Villalonga (2001).
[120] Cho (1998).

has not yet found many good external shocks that allow us to understand the causal impact of controlling ownership.[121]

It also seems likely that the type of controlling shareholder has an impact on the extent to which the controlling shareholder has a long-term perspective. As suggested above, family shareholders might have a long-term perspective due to the desire to transfer the family business to the next generation. This could explain why family ownership is generally associated with stronger financial performance in listed corporations.[122] However, it seems that this link mainly exists in corporations where the CEO or chairman of the board belongs to the first generation of the founding family – descendant-led family firms underperform non-family firms.[123] One possible explanation is that later generations of the founding family and non-founding families are less concerned with the long-term vision. Other studies examine the impact of family firms on R&D investment, which can be seen as a more direct, yet incomplete[124] measure of long-term orientation. Several studies find that listed family firms generally invest less in R&D, compared to other listed corporations[125] and listed corporations with a lone founder[126]. On the other hand, some evidence shows that family firms where later generations remain involved in the management[127] or where the family owns a significant amount of shares[128] on average invest more in R&D. Therefore, whether family controlling shareholders are more focused on the long term seems to depend on the circumstances.[129]

[121] Cfr. Edmans and Holderness (2017), pp 587-588 ("Our point is that it would be powerful to use natural experiments (or instruments, as considered in the previous section) to study blockholders, but we simply do not know of any").
[122] See, for example: Anderson and Reeb (2003) (regarding the US); Villalonga and Amit (2006) (regarding the US); Block (2009), pp 81-88 (regarding the US); Barontini and Caprio (2006) (regarding continental Europe). See for an excellent literature review: Amit and Villalonga (2014); Villalonga et al. (2015).
[123] Villalonga et al. (2015), p 638 (concluding on the basis of a review of the empirical evidence that "founder-led firms outperform, whereas descendant-led firms underperform […]. Within family firms, founding families are particularly likely to be dedicated and effective owners because their emotional ties to the firm give them an additional source of motivation").
[124] It should be mentioned that the level of R&D investment in a corporation does not necessarily correspond with the R&D productivity in that corporation. See, for example the discussion on innovation input and innovation output in (listed and unlisted) family firms: Duran et al. (2016); Block et al. (2023).
[125] See, for example: Chrisman and Patel (2012) (regarding the US); Munari et al. (2010) (regarding Europe); Muñoz-Bullón and Sanchez-Bueno (2011) (regarding Canada).
[126] Block (2012), p 257 (regarding the US).
[127] Chrisman and Patel (2012), p 991.
[128] Block (2009), pp 109-121 (finding an overall negative effect of family ownership on R&D investment, but a positive effect on R&D investment if the family owns more than 30% of the shares in a listed corporation).
[129] See for an overview of the theoretical arguments of why family firms may be more or less short-termist: Block (2009), p 54.

There is also empirical evidence that industrial foundations, a type of controlling shareholder common in the Nordic countries, take a long-term approach to governing corporations.[130] Empirical studies also find that this long-term approach is associated with a financial performance that is at least as good (although not necessarily better) as that of corporations with a different shareholder structure.[131] One possible explanation for the stronger long-term perspective is that industrial foundations are required by their charter to hold their shares for the long term and to promote the survival of the corporation.[132] This constitutes a stronger commitment than most other types of controlling shareholders that the shares will not be transferred. In addition, foundations do not normally have their own operational activity, so the potential for increasing diversionary private benefits of control by engaging in related party transactions is lower, reducing one source of short-termism. Unlike other controlling shareholders, a foundation also has no shareholders or natural persons who can demand pay-outs to meet their personal consumption needs, eliminating another source of short-termism.[133]

A final example where the type of controlling shareholder may make a difference concerns the state as a controlling shareholder. As suggested above, there is a risk that the state may be short-termist, for example, by sacrificing long-term investments to ensure large dividends to balance its budget. The empirical evidence suggests that listed state-owned enterprises generally perform less well financially.[134] However, it is possible that this has nothing to do with short-termism, but rather with the pursuit of non-financial goals by public corporations. This last hypothesis is confirmed by empirical evidence that state-owned enterprises perform better on environmental metrics.[135]

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130 Thomsen et al. (2018), p 180 (concluding on the basis of a data set of Danish corporations that "foundation ownership is highly stable compared to other ownership structures. Foundation-owned companies replace managers less frequently. They have conservative capital structures with low financial leverage. They score higher on an index of long-termism in finance, investment, and employment. They survive longer").

131 Herrmann and Franke (2002), p 261 ("The empirical findings show a slightly better performance of foundation-owned firms compared to corporations"); Thomsen (1996); Thomsen and Rose (2004), p 343 (finding that "foundation-owned companies listed on the Copenhagen Stock Exchange are at least as efficient as other listed companies in terms of risk adjusted stock returns, accounting returns and Tobin's Q"); Thomsen and Hansmann (2013), p 1 ("We find that, overall, foundation-owned companies have similar accounting profitability, take less risk, and grow more slowly than listed investor-owned companies").

132 Thomsen et al (2018), p 183; Herrmann and Franke (2002), p 263.

133 Thomsen et al. (2018), p 183. A nuance is that a foundation can also have as its purpose to financially support family members. See: Herrmann and Franke (2002), p 263; Thomsen (1999), p 119.

134 See for example: Thomsen and Pedersen (2000).

135 Villalonga et al. (2022), p 15. See also: Kavadis and Thomsen (2023), p 214 (finding on the basis of a recent review of the empirical evidence that state ownership is positively correlated with corporate sustainability in the majority of studies discussed).

5. Policy implications

What are the policy implications from the analysis above? A first conclusion is that some of the solutions for the investor short-termism or the managerial short-termism hypothesis (discussed above in section 2.3) will not be effective in corporations with a controlling shareholder.

For example, it can be doubted whether the proposals to reformulate directors' duties to make less shareholder-oriented will be effective in combatting investor short-termism in corporations with a controlling shareholder. In all corporations, forcing directors to take a more long-term view by suing them for a breach of directors' duties is difficult, because of the presence of the business judgment rule (or similar legal doctrines) and barriers to bringing shareholder litigation.[136] In corporations with a controlling shareholder, the low-powered incentives of directors' duties are likely to be less effective in combatting short-termism than monitoring by the controlling shareholder. In addition, if the controlling shareholder is short-termist itself, the low-powered incentives of directors' duties are likely dominated by the high-powered incentives for directors to serve the interests of the controlling shareholder, as the controlling shareholder can simply fire the directors that do not implement the desired policy and/or reward directors that do implement the desired policy with higher pay. That said, imposing duties on directors to act in the long-term interest of the corporation might have an 'expressive' purpose and help to guide managers' behavior.[137]

In addition, proposals to solve the investor short-termism problem by insulating the board of directors from allegedly short-termist activist shareholders will likely not make a difference if there is a controlling shareholder, as the controlling shareholder already insulates the board from activists to a large extent.[138] Conversely, trying to encourage long-term oriented investors to engage in long-term oriented stewardship to combat managerial short-termism will not matter much if a controlling shareholder dominates the general meeting. If the controlling shareholder has a long-term perspective, the stewardship is unnecessary; if the controlling shareholder is short-termist, long-term oriented stewardship will likely not be effective.[139]

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[136] Armour et al. (2017b), pp 69-70 (regarding the business judgment rule); Gelter (2012). See also: Willey (2019), pp 168-169 (questioning the impact of fiduciary duties as a transmission mechanism of short-termism).

[137] Dallas (2011), p 276 and p 356.

[138] However, Kastiel discusses some options for shareholder activism in controlled corporations: Kastiel (2016), p 67.

[139] See for a similar argument that investor stewardship is unlikely to be effective in controlled corporations: Puchniak (2024, forthcoming). But see with respect to sustainability: Kavadis and Thomsen (2023), p 204 (arguing that "the effect of long-term share ownership on sustainability is contingent on the presence of share owner stewardship").

Some scholars have argued that short-termism can be reduced by banning quarterly reporting and/or introducing more long-term oriented reporting, based on the idea that this will help shareholders focus on information that is relevant for the corporation's long-term performance.[140] However, controlling shareholders already have the incentives and the ability to gather exactly the information that they need from corporations, making changes to mandatory disclosure rules largely irrelevant. Nevertheless, disclosures (especially together with shareholder activism and shareholder stewardship) could still be relevant for short-termism in controlled corporations, to the extent that they impact the reputation of a controlling shareholder.

The analysis in section 4 also shows that if one fears that controlling shareholders are short-termist, the best solution would be to address the diversionary and distortionary private benefits of control, since they are the primary reason for why controlling shareholders may be short-termist. One example is to provide strong procedural safeguards in case of related party transactions involving the controlling shareholder. In addition, as argued above in section 4, the remuneration of a controlling shareholder who is also a director is a possible source of short-termism. Therefore, the executive compensation for directors with ties to the controlling shareholders could be made subject to the approval of a majority of the minority shareholders.[141] Finally, minority-appointed directors could help monitor the extraction of private benefits by controlling shareholders.[142] However, the problem with all these policy proposals is that they can only be effective in reducing short-termism if the minority shareholders that are empowered by these proposals are less short-termist than the controlling shareholders; otherwise the policy proposals could exacerbate short-termism.

If one believes that controlling shareholders are the solution to the short-termism problem because they are more long-term oriented, then policymakers could facilitate the creation of control. One obstacle to holding a controlling stake in a listed corporation is that it ties up a large portion of the controlling shareholder's wealth in a single corporation, making

[140] Dallas (2011), pp 324-329.
[141] Such a rule has been found effective in Israel in protecting shareholders against the extraction by controlling shareholders of private benefits through remuneration. See Fried et al. (2020).
[142] Such directors have been proposed by: Bebchuk and Hamdani (2017), pp 1295-1304; Gutiérrez and Sáez (2013), pp 93-94; Pacces (2019), pp 209-212.

diversification more difficult and thus holding a controlling stake less attractive.[143] In addition, it is also possible that a controlling shareholder's wealth is simply limited, so that the controlling shareholder can no longer finance further expansion of the corporation without losing their control.[144] The classic answer to these problems is to decouple the financial participation of the controlling shareholder from the voting rights associated with the participation, for example through a dual class share structure or a pyramid structure.[145]

Alternatively, the creation of controlling shareholders can be encouraged by introducing loyalty voting rights. Loyalty voting rights grant shareholders multiple voting rights (typically double voting rights) if they have their shares for an uninterrupted period of time (typically two years).[146] The original idea behind loyalty voting rights was that they would encourage shareholders to hold their shares for a longer period of time and therefore discourage short-termism among shareholders.[147] However, loyalty voting rights are in practice almost exclusively used by insiders and controlling shareholders to enhance their existing control, and do no lengthen the horizon of institutional investors.[148] Nevertheless, loyalty voting rights can still help to combat short-termism by encouraging the creation of controlling shareholders, who may be more long-term oriented than other shareholders (see above in section 4).

However, encouraging the creation of controlling shareholders through dual class share structures and loyalty voting rights also comes with a drawback: the 'wedge' between cash flow rights and voting rights strengthens the incentive for the controlling shareholder to extract private benefits of control from the corporation, because the controlling shareholder bears a smaller fraction of the financial consequences.[149] As discussed in section 4, these private benefits of control can be the cause of short-termism among controlling shareholders. One advantage that loyalty voting rights have over dual class share structures, however, is that the multiple voting rights are limited to double voting rights. Therefore, in order to maintain

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143 Gilson (2006), p 1652 and p 1664; Shleifer and Vishny (1997), p 758.
144 Geens and Clottens (2010), p 151.
145 See for a thorough analysis of the advantages and disadvantages of dual class share structures: Keijzer (2020).
146 Loyalty voting rights have been introduced in several European countries, such as France, Italy, the Netherlands, Belgium and most recently Spain. See, more in general: Mosca (2019).
147 Delvoie and Clottens (2015), pp 19-20. This rationale was also explicitly mentioned by the Belgian legislator in the parliamentary documents. See: Explanatory Statement Law 4 June 2018 regarding the introduction of the Companies and Associations Code, *Parliamentary Proceedings* Chamber of representatives 2017-2018, nr. 54-3119/001, 208.
148 Roe and Cenzi Venezze (2021), pp 487-496. See for empirical evidence: Becht et al. (2020) (with regard to France); Bajo et al. (2020) (with regard to Italy); Declercq et al. (2023) (with regard to Belgium).
149 See for an economic analysis of this issue: Bebchuk et al. (2000).

control, controlling shareholders still need to hold a significant financial participation in the corporation and are still exposed to a large extent to the corporation's long-term performance.

Whether loyalty voting rights and dual class share structures have a net positive or negative impact on short-termism remains to be seen. In any case, this analysis shows that one has to be very vigilant with the introduction of multiple voting rights, which can have both advantages and disadvantages. This is especially true when multiple voting rights are introduced during the life of the corporation (in the 'midstream'), as this causes a sudden shift of power from minority shareholders to controlling shareholders.[150] Lowering the majority required for introducing loyalty voting rights, as has been done in Belgium and Italy,[151] or making loyalty voting rights the default rule, as has been done in France with the Loi Florange,[152] therefore seems misguided, even if one agrees with the goal of combatting short-termism. If loyalty voting rights have a role to play in combatting short-termism, and not merely serve to increase the power of controlling shareholders, legislators should provide stronger protection for minority shareholders when loyalty voting rights are introduced in the midstream phase.[153]

The table below summarizes the policy implications of adding controlling shareholders to the short-termism hypotheses. In the presence of a controlling shareholder, whether managers are short-termist is largely irrelevant, as the long-term or short-term orientation of managers will normally be an emanation of the orientation of the controlling shareholder, who appoints the managers. For this reason, managers are left out of the table. The table illustrates that the policy implications differ depending on whether controlling shareholders are long-term or short-term oriented. If controlling shareholders are long-term oriented, and other investors are short-termist, creating control should be facilitated by making loyalty voting rights and/or dual class share structures available, and minority rights should be limited. On the other hand, if controlling shareholders are short-termist, and other investors are not short-termist (or less short-termist), policymakers should try to reduce the extraction of private benefits of control (a source of short-termism) by empowering minority shareholders (as discussed above). In addition, if controlling shareholders are short-termist, policymakers can try to lengthen the horizon of controlling shareholders, for example by introducing fiduciary duties for the

[150] See for a discussion of the greater risks for shareholders in the midstream phase: Bebchuk (1989b).
[151] For Belgium: article 7:53 Belgian Companies and Associations Code; for Italy, see: Bajo et al. (2020).
[152] See about the Loi Florange: Becht et al. (2020).
[153] This can be done by requiring approval by a majority of the minority shareholders or by granting minority shareholders appraisal right.

controlling shareholders and the corporation to act in the long term, making disclosures more long-term oriented, and/or encouraging long-term activism and stewardship. However, as discussed above, the effectiveness of these policy proposals is likely to be limited (hence the question mark).

	Controlling shareholder short-termist	**Controlling shareholder not short-termist**
Institutional investors short-termist	(1) Lengthen horizon of controlling shareholders (?) (2) reduce extraction of private benefits of control by empowering minority shareholders (only if minority shareholders are less short-termist than controlling shareholders)	(1) Encourage the creation of control (for example through dual class share structures and loyalty voting rights) (2) insulate controlling shareholder (even more) from minority shareholders
Institutional investors not short-termist	(1) Lengthen horizon of controlling shareholders (?) (2) reduce extraction of private benefits of control by empowering minority shareholders (for example through minority-appointed directors, strong rules regarding related party transactions and executive compensation and strong protections when dual class share structures and loyalty voting rights are introduced)	No problem, no policy implications

Table 2: the short-termism policy proposals matrix adapted to controlling shareholders

6. Conclusion

The goal of this paper was to move the short-termism debate forward by adding the role of controlling shareholders to the analysis. It is clear that controlling shareholders could play an important role in solving the short-termism problem (should one exist), both in the investor short-termism hypothesis and in the managerial short-termism hypothesis. However, controlling shareholders can only help with combatting short-termism if they themselves are not excessively focused on the short term. Further empirical research, especially employing external shocks to insider ownership, is necessary to determine which controlling shareholders can have a positive impact on the long-term firm performance, and under what conditions. In any case, the theoretical analysis suggests that the protection of minority shareholders against the extraction of private benefits of control is important for preventing short-termism. Initiatives to facilitate controlling shareholders through multiple voting rights must therefore be accompanied by mechanisms that protect minority shareholders. Only in this way can we arrive at a corporate governance system that truly facilitates long-term value creation.

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