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CONCENTRATED OWNERSHIP, SOCIOEMOTIONAL WEALTH, AND THE "THIRD POSSIBILITY": BRINGING SOCIETY BACK IN

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Abstract

Concentrated ownership implies greater alignment between ownership and control, mitigating the agency problem. However it may also engender governance challenges such as funds appropriation through related party transactions and the oppression of minority shareholders, especially in the context of weak legal systems. We draw from legal theory (the tradeoff controlling shareholder model and private benefits of control) and from organization theory (socioemotional wealth), to suggest that concentrated ownership can be beneficial in both robust and weak legal systems for different reasons. We advance theory on the effects of controlling shareholders and suggest that the longer-term outlook associated with engaged concentrated ownership can aid the shift of the corporation towards Berle and Means' (1932, p. 355) "third possibility" of corporations serving the interests of not just the stockholders or management but also of society.

Keywords: Concentrated ownership, agency theory, socioemotional wealth, third possibility, stakeholder orientation

Introduction

Agency theory, through its theorization of the principal-agent relationship arising from the separation of ownership and control (Berle & Means, 1932; Eisenhardt, 1989; Jensen & Meckling, 1976), constitutes the dominant paradigm of corporate governance (Gelter, 2009). From this perspective, concentrated ownership mitigates the separation of ownership and control and creates greater alignment between stockholders and managers, particularly where majority owners are engaged with the company rather than passive. On the other hand, however, many have argued that concentrated ownership could be detrimental for companies, minority shareholders, and the broader economic system because it can make it easier for majority shareholders, particularly in weak legal systems, to abuse their controlling position by undertaking activities such as related party transactions or oppression of minority shareholders (Dam & Scholtens, 2013; Gelter, 2009; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998, 2000; Morck & Yeung, 2004; see also Luyckx, Schneider & Kourula, 2022, in this volume).

We draw from the tradeoff controlling shareholder model and the concept of private benefits of control in law (Gilson, 2006; Gilson & Gordon, 2003; Gilson & Schwartz, 2012), and from the concept of socioemotional wealth in organization theory (Gomez-Mejia, Cruz, Berrone, DeCastro, 2011; Gomez-Mejia, Takacs Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007), that we view as an instance of a private benefit of control, to suggest that concentrated ownership can be beneficial in both robust and weak legal systems for different reasons. We suggest that concentrated ownership can be beneficial where particular types of controlling shareholders have a significant role in the management of the firm and a high level of socioemotional wealth. Such shareholders are less likely to cede control in the context of robust legal systems and are also likely to appropriate a lower level of pecuniary (financial) benefits in the context of weak legal systems.

We then propose that concentrated ownership, far from being potentially detrimental, can assist the pursuit of Berle and Means' (1932, p. 355–356) "third possibility" that the "modern corporation serve not alone the owners or the control but all society"; (see also Leixnering, Meyer & Doralt, 2022, in this volume). This is not only achievable because concentrated ownership can mitigate agency problems that may arise with the separation of ownership and control. More importantly, because of the more engaged nature of such owners, they are more likely to guide corporations in pursuing longer term, societally legitimate patterns of actions. This enables us to posit the possibility of a modern capitalist system that has accepted the fact that despite the dominance of diffused ownership and the prevalence of the kinds of agency challenges that Berle and Means (1932) identified, corporations that are closely held by engaged owners may yet play a socially responsible role.

Concentrated Ownership as a Double-edged Sword

Research in corporate governance addresses potential agency problems caused by the separation of ownership and control, particularly in widely held corporations (Berle & Means, 1932; Jensen & Meckling, 1976; Romano, 1993); as well as potential agency problems caused by controlling shareholders in closely held corporations (La Porta et al., 2000; Morck, Wolfenzon, & Yeung, 2005). As Berle and Means (1932, p. 66) have argued, the separation of ownership and control in widely held corporations has rendered the owners of stock to the status of "passive agents" where "the spiritual values that formerly went with ownership have been separated from it". With respect to closely held corporations on the other hand, Berle and Means (1932) argue that majority ownership "means undiminished actual control" (p. 71) for the majority owners; whereas minority owners are "likely to suffer" (p. 72) when their interests diverge from the majority owners and they are not protected by enforceable law.

Many researchers have suggested that concentrated shareholding may facilitate corporate governance abuses such as tunneling (directing company assets or business to oneself for personal gain) and oppression of minority shareholders (Dam & Scholtens, 2013; Gelter, 2009; Morck & Yeung, 2004). Gilson and Gordon (2003) note that controlling shareholders can extract benefits of control by "taking a disproportionate amount of the corporation's ongoing earnings, by freezing out the minority, or by selling control" (p. 786). Barclay and Holderness (1989) indeed found that holders of large blocks of shares receive benefits disproportionate to their ownership holding. Further, many argue that concentrated shareholding could have a detrimental effect on society in that it can bias capital allocation, retard capital market development, obstruct entry by outsider entrepreneurs, and inhibit economic growth (Morck et al., 2005; Qian, Wang, Geng, & Yu, 2017).

Finance and economics literatures mainly focus on detrimental outcomes of control and describe such rent as the private benefit of control (Dyck and Zingales, 2004; Shleifer & Vishny, 1997), where the level of private benefit extracted will decrease as controlling shareholding reduces via higher dispersion of ownership (Claessens, Djankov, & Lang, 2000; Faccio & Lang, 2002; Morck et al., 2005). However, the solution of wider dispersion is rather monolithic in that it omits a number of situations. For example the potential benefits of concentrated ownership may exceed the costs in the context of a robust legal system; or by exercising control to discipline management a controlling shareholder incurs private cost to themselves while the benefits are shared with all the shareholders (Bolton & Thadden, 1998; Çelik & Isaksson, 2014).

It has been argued that concentrated control is more prevalent in inferior legal systems with lower protections for investors and minority shareholders (La Porta, Lopez-de-Silanes, & Shleifer, 1999; La Porta et al., 2000). Morck et al. (2005) argue that in economies which allow existing shareholders to exercise control disproportionately to the capital invested, or to develop control enhancing mechanisms there will be economic entrenchment detrimental to the populace in general.

Yet a 2007 study commissioned by the European Commission that covered 16 member states and three other jurisdictions, showed that control enhancing mechanisms such as dual-class equity structures, pyramid structures, and multiple voting rights shares, are widely employed in all countries reviewed and that company performance was not adversely affected by these mechanisms (ISS Europe, ECGI, & Shearman & Sterling LLP, 2007).

Despite the potential negative effects of concentrated ownership, empirical work shows that more than half of public companies around the world other than in the U.S. and the U.K. typically have a single shareholder or small group of shareholders with effective voting control (Claessens et al., 2000; Faccio & Lang, 2002; Holderness, 2003; La Porta et al., 1999). La Porta et al. (1999) reported that 64% of public corporations in the 27 countries studied had a controlling shareholder with at least 20 per cent blockholder control. Empirical literature studying ownership of public corporations usually measures blockholdings at the 5, 10 or 20% level (Dam & Scholtens, 2013) since the remaining shares are widely held and most small shareholders do not vote (Morck & Yeung, 2004). Similar observations were made in East Asian (Claessens et al., 2000) and European countries (Barca & Becht, 2001; Faccio & Lang, 2002). Families tend to control a large proportion of these firms (Claessens et al., 2000; Faccio & Lang, 2002; Morck et al., 2005).

Controlling shareholders can be found not only in countries with weak legal and corporate governance systems as assumed by critics of concentrated ownership but are widespread in countries with well-developed systems such as Germany, Italy and Sweden (Gilson, 2006). Holderness (2009) found that 96% of US public firms have blockholders, who in aggregate own 39% of the stock of these firms. Cheffins and Banks' (2009) assessment of Berle and Means' (1932) separation of ownership and control thesis suggests that while "there has never been a total divorce of ownership from control in U.S. public companies" (p. 467) the extent of this separation has shifted over time, depending on the time period and sample of companies one examines.

Although concentrated ownership could allow controlling shareholders to extract rent from the firm to the exclusion of minority shareholders, there are also potential advantages. For example, agency costs at firm level can be reduced since the controlling shareholder as insider has both the incentive (holding a larger equity stake) and the means (greater access to information) to discipline and monitor managers. Research in listed corporations has found that concentrated ownership, through more efficient monitoring, has a positive effect on corporate performance; with the performance effect being stronger in weaker governance contexts, as a comparative study between firms in Singapore and Vietnam has shown (Nguyen, Locke, & Reddy, 2015). Positive performance effects of concentrated ownership were also shown in a study of Chinese banks, with the relationship being negatively moderated by company size (Huang, 2020). Similarly, positive performance effects of ownership concentration were shown in a broad sample of companies in Pakistan (Yasser & Al Mamun, 2017) and India (Singal & Singal, 2011).

Further, not wishing to undermine their continued non-pecuniary benefits, controlling shareholders may take actions aiming to safeguard the longevity and success of the enterprise. This is well documented in the literature on family firms (Anderson & Reeb, 2003; Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Gomez-Mejia et al., 2011) but takes place in all organizational types. When Google was preparing its initial public offering in 2004, it employed a dual class share structure. The two founders and the CEO would own Class B shares with 10 votes each, whereas other investors would own Class A shares with 1 vote each. The effect of this would be that the founders and CEO would be able to retain effective voting control even as they diluted their holdings. Larry Page and Sergey Brin wrote a “letter from the founders” (Google Inc., 2004) to emphasize that being able to retain control would allow them to lead *Google* with a longer term orientation rather than slavishly follow the demands of quarterly earnings reports: “As a private company, we have concentrated on the long term, and this has served us well. As a public company,

we will do the same" (p. i). Further, this longer-term orientation would enable adequate investments in innovations: "Our business environment changes rapidly and needs long term investment. We will not hesitate to place major bets on promising new opportunities … We are creating a corporate structure that is designed for stability over long time horizons" (p. iii). Finally, this long-term orientation was intended to enable *Google* to benefit society: "We believe strongly that in the long term, we will be better served – as shareholders and in all other ways – by a company that does good things for the world even if we forgo some short term gains" (p. vi). Although *Google's* concentrated ownership approach has drawn criticism, the company has also been voted as the technology company with the best corporate culture. Factors cited include trust between the company and the employees, shared values around the company mission of making the world's information universally accessible and useful, and investment in employee growth and development (Forbes Technology Council, 2018).

Danish insulin maker *Novo Nordisk* is a public limited liability company with dual class shareholding and traded on *NASDAQ Copenhagen* and *NYSE*. The *Novo Nordisk Foundation* owns all of its A shares and controls 76.5 per cent of the votes. The B shares, which contribute 71.9 per cent of the company's capital, are held by institutional and private investors. *Novo Nordisk* has been seen as a profitable company that exemplifies the benefits of long-term stewardship. First founded in 1923, the company has continued to strive hard to strike a balance between delivering returns to its shareholders and also fulfilling the mission laid down by its original founders that profits should be used for scientific and humanitarian purposes. *Novo Nordisk Foundation*, established in 1989 to ensure that this mission continues to be upheld, has sent the clear message at annual general meetings that "there are more stakeholders than just those who get the dividends" (Neville, 2019, para. 25).

The above suggests that we may need to develop a more nuanced view in corporate governance research about the potential consequences of concentrated ownership (Dyck & Zingales, 2004; Grossman & Hart, 1980; La Porta et al., 1999; Morck et al., 2005). We draw from law and organization theory to propose an integrated controlling shareholder tradeoff model, where different configurations of non-financial benefits accrue to different types of owners. Our analysis suggests that in the context of an effective legal system discouraging and controlling against abuse of ownership power for pecuniary benefits, concentrated ownership can have positive effects. In addition in a weak legal system, non-pecuniary private benefits of control accruing to the owners can help to curb controlling shareholders from excessive rent-seeking, again suggesting positive effects of concentrated ownership.

Controlling Shareholder Tradeoff Model and Private Benefits of Control

Gilson (2006) argued that the simple dichotomy between controlling shareholder systems and widely held shareholder systems as employed in finance does not allow an understanding of the diversity of ownership structures in different national capital markets and their policy implications. He notes that there are two opposing corporate governance consequences flowing from a controlling ownership structure. On the one hand, agency costs at firm level may be reduced as the controlling shareholder as insider has both the incentive (holding a larger equity stake) and the means (greater access to information) to discipline and monitor managers, benefiting the rest of the shareholders at the same time. On the other hand, concentrated ownership may allow the controlling shareholder to extract rent from the firm to the exclusion of minority shareholders by virtue of the control vested in controlling ownership.

Gilson (2006) proposes a controlling shareholder tradeoff framework where a functionally good law which protects investors and curbs abusive use of power by the majority will constrain the

level of private benefits of control but will also allow minority shareholders to benefit from a controlling shareholder's more focused monitoring, leading to higher firm performance (Gilson, 2006, p. 1661). We draw from this legal framework in this section to bring together finance-based corporate governance literature on private benefit of control and organization theory on socioemotional wealth to explain the potentially positive effects of concentrated ownership.

Finance-based corporate governance literature measuring the value of control to controlling shareholders generally reports a positive value (Claessens et al., 2000; Dyck & Zingales, 2004; Faccio & Lang, 2002). However, the amount of private benefits that can be extracted decreases in countries with more effective accounting disclosure rules, laws protecting minority interests and higher quality of law enforcement (Dyck & Zingales, 2004; Nenova, 2003). It is suggested that an efficient controlling shareholder system in which functionally good law, one which offers strong legal protection for investors and minority shareholders, enables the benefits of more focused monitoring to exceed the costs of private benefit extraction so that in the end, the minority shareholders are "net better off from the controlling shareholder's monitoring effort" (Gilson, 2006, p. 1652).

Private benefits of control can be pecuniary or non-pecuniary. Pecuniary private benefits refer to the non-proportional flow of real resources from the company to the controlling shareholder such as perquisites (Jensen & Meckling, 1976), and via self-dealing transactions and intergroup profits redistribution practices (Gedajlovic & Shapiro, 2002) and other forms of tunneling (Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000). These benefits are not shareholder-specific in terms of their nature, since control premium will only have market value if subsequent purchasers of the controlling block of shares can enjoy the private benefits regardless of their identities (Adams & Ferreira, 2008). On the other hand, non-pecuniary private benefits, such as prestige, social status and the ability to direct the firm in accordance to one's vision, are idiosyncratic and peculiar to the

controlling shareholder; they are often psychophysiological and have no transferable value (Demsetz & Lehn, 1985). They involve no transfer of real company resources and do not disproportionately dilute the value of the company's stock to a diversified investor (Gilson, 2006). Companies with large non-pecuniary private benefits are less likely to find buyers who will value control more than the original owner (Dyck & Zingales, 2004). If such controlling block of shares does change hands, the shares are likely to exhibit lower control premia.

Through modeling, Gilson and Schwartz (2012) show that pecuniary private benefits of control are not inherently bad. There can be an optimal level of pecuniary private benefit consumption that maximizes the control group's profits, sufficiently enough to encourage the controlling shareholders to monitor management directly or indirectly; and compensates public shareholders for funding the firm's projects. This result assumes that a controlling group can credibly commit not to consume more than its fair share of the pecuniary private benefit by virtue of its control over the firm and that an effective legal system can foster such commitment. In countries where the law is able to keep pecuniary private benefits so low that it does not make economic sense for the shareholders to continue to hold on to a controlling block of shares, the reason why controlling shareholders continue to stay as such may be attributed to the non-pecuniary benefits they enjoy. This explains the prevalence of concentrated shareholding patterns in robust legal jurisdictions (Gilson, 2006).

Then why do minority shareholders continue to exist in markets with weak legal investor and minority shareholders protection? In legal jurisdictions which do not protect investors, controlling shareholders should be seeking so much rent from the public shareholders such that the latter would no longer find it efficient to help fund the firm's projects through the equity market, leaving only blocks of concentrated shareholders who can balance and check one another. That is, the minority shareholders would be crowded out by adverse selection (Gilson & Schwartz, 2012).

Nonetheless, we still find public shareholders investing in markets with weak or poor investor protection laws. In fact, it has been found that in regions with less than perfect legal protection for minority shareholders, concentrated ownership is an efficient corporate governance strategy that offers the best protections for shareholders (Denis & McConnell, 2003; Heugens, Essen, & Oosterhout, 2009).

We therefore suggest that in these jurisdictions, the non-pecuniary benefits of control enjoyed by controlling shareholders may actually act as a moderating factor and deter controlling shareholders from excessive rent seeking so that the minority shareholders still obtain a net positive return in their investment. As Gilson and Schwartz (2012) note, there can be some form of "implicit commitment techniques" (para. 5.1) such as reputation-based commitment and structural commitment that help to restrain controlling shareholders in places with weak legal institutions. Unlike pecuniary benefits, non-pecuniary benefits involve no transfer of real company resources, do not disproportionately dilute the value of the company's stock and are generally idiosyncratic and peculiar to the controlling shareholder. Consumption of non-pecuniary benefits by controlling shareholders will not have a detrimental effect on the company nor on the minority shareholders. Instead, it may have a net positive effect to be enjoyed by all shareholders.

Non-Pecuniary Private Benefits of Control and Socioemotional Wealth

Research on private benefits of control predominately focuses on the size and determinants (Chung & Kim, 1999; Nenova, 2003; Rydqvist, 1996) of the pecuniary private benefits across countries (Claessens et al., 2000; Dyck & Zingales, 2004; Faccio & Lang, 2002). There is very little finance literature on the effects of non-pecuniary private benefits of control. Organization theory literature however suggests that the relative size of non-pecuniary vis-à-vis pecuniary benefits, as well as the mode of control and firm behavior will be influenced by the identity of the controlling shareholder

(Miller, Le Breton-Miller, & Lester, 2011). Although the possession of stock in a firm is generally sought for financial reasons, organizational ownership can have value for its role in expressing or reinforcing a sense of self, such as when there is high coherence between the entrepreneur's goals with the goals, processes and structure of their organizations (Schneider, 1987). This emotional meaning or value attached to the firm has been argued to be highest with family-owned firms (Gomez-Mejia et al., 2007).

With the umbrella construct of socioemotional wealth (SEW), scholars found empirical differences between family and non-family controlled firms in many distinct circumstances, such as executive tenure (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001), executive pay (Gomez-Mejia, Larraza-Kintana, & Makri, 2003), firm risk taking (Gomez-Mejia et al., 2007), governance arrangements (Jones, Makri, & Gomez-Mejía, 2008), product and international diversification (Gomez-Mejia, Makri, & Larraza-Kintana, 2010), environmental performance (Berrone et al., 2010), agency contracts (Cruz, Gomez-Mejia, & Becerra, 2010), and human resource management practices (Cruz, Firfiray, & Gomez-Mejia, 2011).

SEW has been defined as 'the affective endowment of family owners' (Gomez-Mejia et al., 2011, p. 654), that is, the non-economic, affective utilities or values a family derives from its ownership position in a particular firm (Berrone, Cruz, & Gomez-Mejía, 2012; Gomez-Mejía et al., 2007; Gomez-Mejía et al., 2010; Gomez-Mejía et al., 2011; Hauck, Suess-Reyes, Beck, Prügl, & Frank, 2016). The concept of SEW has been criticized as lacking sound theoretical and methodological underpinning; in particular, it was ambiguous what the dimensions are and how the concept might be operationalized and tested (Chua, Chrisman, & De Massis, 2015; Schulze and Kellermanns, 2015). Berrone et al. (2012) however have developed and operationalized SEW by structuring the concept in terms of several dimensions they labeled FIBER: (F)amily control and influence, (I)dentification of family members with the firm, (B)inding social ties, (E)motional

attachment of family members and (R)enewal of family bonds to the firm through dynastic succession. The FIBER scale was empirically tested and validated by Hauck et al. (2016) who also proposed a shorter scale of REI: (R)enewal of family bonds to the firm through dynastic succession, (E)motional attachment of family members, and (I)dentification of family members with the firm.

A further critique of SEW is that family motives are mixed among financial and non-financial ones (Miller & Le Breton-Miller, 2014) and that economic drivers should be considered as well (Chua et al., 2015). It has also been argued that the view of a zero-sum game outcome of SEW being "self-interested" and only serving the family's needs is too restrictive (Newbert & Craig, 2017). Finally, SEW has been critiqued as generic and not specific to family firms; it could apply to entrepreneurs (Miller & Le Breton-Miller, 2014) and non-family principals and managers (Berrone et al., 2012). We agree with these critiques and suggest that the concept of SEW can and should be widened to embrace a broader spectrum of controlling agents, other than families. With the theoretical underpinning of the controlled shareholding tradeoff framework which we have outlined earlier, both the economic (pecuniary) and non-economic (non-pecuniary) benefits of control enjoyed by the controller, including families, can be accounted for and tested. Along these lines, we argue that by incorporating SEW and looking at it through an extended lens, we can develop a theory of concentrated ownership that culminates in positive-sum outcomes for both the owners and the other stakeholders in society to which the firm is accountable. We now turn to examine how the SEW concept may be extended to include other types of concentrated shareholders, in addition to family owners.

Controlling Shareholder Type and Socioemotional Wealth

Research has shown that the identity of the owner in control matters in many issues relating to the firm, including firm performance (Chen, Firth and Xu, 2009; Isakov and Weisskopf, 2014) and

value creation through M&A (Craninckx and Huyghebaert, 2015). Different types of owners have different objectives and motivations as to how they want to exercise their control rights over the firms they invest in. Controlling shareholders can be institutional investors such as pension funds; the state; a group with a common purpose but with no single controlling investor, such as management owners; an entrepreneur; or a family. We expect the different types of controlling shareholders to enjoy different amounts and configurations of SEW in the firm under their control.

One challenge in extending SEW to controllers other than families relates to clarifying where or in whom does SEW reside? Early literature in SEW implies that SEW enhances the value of the enterprise to the family as a whole and it accrues to the firm (Gomez-Mejia et al., 2007; Gomez-Mejia et al., 2011). Subsequent studies however focus on the welfare of family principals, implying that SEW resides in the principals (Berrone et al., 2012; Hauck et al., 2016). In law, shareholders and the firm are separate legal entities. The firm as a legal entity persists even when there is a change in ownership structure. However in this context, the SEW enjoyed by controllers may be lost or altered. Therefore, family controllers could choose to underprice at IPO to preserve their SEW by preventing high nonfamily concentration (Leitterstorf and Rau, 2014). This line of argument suggests that SEW can be conceived more fruitfully as residing with the controlling shareholders.

A second challenge is deciding whether SEW can be experienced by non-natural persons; that is, legal entities such as institutional investors and state-owners? Using Hauck et al.'s (2016) REI scale of measurement, we argue that that except for "E" which signifies emotion and is not experienced by non-human entities, the other two dimensions can pertain, in varying degrees, to different legal entities. The term "institutional investors" includes a wide array of legal entities set up for investing in other companies. They range from pension funds, mutual funds and insurance companies to sovereign wealth funds, private equity, hedge funds, and exchange traded funds. How

they exercise their power of control in the investee companies depends on their business model, purpose and presence of social or political objectives (Çelik and Isaksson, 2014). Some have investment purposes other than for pure economic reasons, such as green investment companies. They examine alignment with the values of firms that they invest in, thus fulfilling the "I" dimension. Similarly, state-owned enterprises have often been said to be 'an extension of the government economic policy' (Robins, 2013).

Even when there is growing evidence of increased autonomy of these enterprises and residual state control (Norris 2016; Tunsjø, 2013), the strong identity congruency between the state and the firms under its control cannot be denied (Jones and Zou, 2017). In addition, in countries like Singapore that have democratic elections every five years and where the ruling party's political legitimacy is "deeply intertwined with Singapore economic performance" (Tan, Puchniak and Varottil, 2015, p. 94) it is expected that the state as controlling shareholders would possess a certain form of transgenerational vision in the firms under state control, thus fulfilling the "R" dimension. Table 1 shows how the different dimensions of the modified FIBER scale ("mFIBER") that incorporates the modified REI scale apply to the different controlling shareholder types.

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In light of these arguments, we suggest that the level and configuration of SEW or non-pecuniary benefits of control accruing to a firm's controlling shareholder vary depending on the identity of this shareholder. In family firms, the propensity to give up socioemotional wealth differs depending on the role of the family and the personal involvement of the owner in both control and management of the firm (Gersick, Lansberg, Desjardins, & Dunn, 1999; Ward and Aronoff, 1994).

The owner is less likely to give up control when the firm is at the founding-family-controlled and managed stage as compared to the extended-family owned and professionally managed stage (Gomez-Mejia et al., 2007). Similarly, it has been found that founder-CEOs or entrepreneurs find it hard to voluntarily exit the venture they have built, even if the exit occurs as a result of success (Rouse, 2016). In comparison, institutional investors, who are merely owners and not involved in firm management, are likely to have little or less SEW or non-pecuniary benefit of control. These arguments suggest that the stronger and more engaged the role of the controlling shareholder in the control and management of the firm, the greater the size of the SEW or non-pecuniary benefit of control accruing to this shareholder.

In firms with controlling shareholders, there is an "optimal" level of pecuniary private benefit consumption which can be contained by an effective legal system (Gilson & Schwartz, 2012). In such cases, controlling shareholders possessing high socioemotional wealth are less likely to sell out their shares, leading to a change of control. In this context, we postulate that there is an overall optimal level of composition of private benefits for every controlling shareholder, such that they are willing to consume less pecuniary private benefits if the non-pecuniary portion is sufficiently high. It follows that even in locations with weak legal systems, high socioemotional wealth enjoyed by controlling shareholders can help to curb excessive rent seeking, as shown by Gomez-Mejia et al. (2007). Gomez-Mejia and colleagues studied 1,237 family-owned olive oil mills in Southern Spain. According to the law and finance classification by La Porta et al. (1998), Spain, which has a French-civil-law origin legal system, is in the group of countries with the weakest shareholder and creditor protection laws (1998, p. 1134, p. 1138). Yet, the family-owned firms in this study avoided making what they saw as risky business decisions, even at the cost of foregoing higher potential financial returns, to preserve their SEW. These arguments suggest that in countries with robust legal systems offering effective investor and minority protection, controlling

shareholders with higher SEW are less likely to cede control, as compared to shareholders with lower SEW. Further, that in countries with weak legal systems offering low investor and minority shareholder protection, firms with controlling shareholders with high SEW will extract a lower pecuniary rent from the firm as compared to shareholders with low SEW. In the end, the positive net effect that accumulates in terms of company performance, stability and reputation will not only benefit controlling shareholders but also a broader base of stakeholders.

Berle and Means' Third Possibility: Coming Full Circle

Berle and Means (1932) decried the fact that dispersion of stock ownership meant loss of the "spiritual values" that go with ownership; for example "physical property capable of being shaped by its owner could bring to him direct satisfaction apart from the income it yielded" (p. 66). This was an early rendition of the benefits of SEW. Berle and Means (1932) were concerned about whose interests the corporation would ultimately serve, and who would wield, and to what effect, the great economic power that corporations possess. They offered three possibilities. The first possibility would be for corporations and those who control them to follow strict property rights and operate corporations in the interests of stockholders. In this model managers would act as trustees of stockholders, even if stockholders were passive and uninterested in the corporation's affairs. This was a line of thinking akin to the "shareholder primacy" model (Lan & Heracleous, 2010; see also Butzbach, 2022, this volume).

A second possibility was that "corporate development has created a new set of relationships, giving to the groups in control powers which are absolute and not limited by any implied obligation with respect to their use" (Berle & Means, 1932, p. 354). This was a line of thinking described by Lan and Heracleous (2010) as "managerialism". Such an approach opens the possibility for those in control to appropriate some funds through generous perquisites for example, which stockholders

may recognize and grudgingly accept to a small degree as a cost of investing. In this model, "might makes right" and poses the risk of a "corporate oligarchy coupled with the probability of an era of corporate plundering" (Berle & Means, 1932, p. 355). Berle and Means were prescient here of the array of corporate scandals where precisely what they cautioned against took place.

Yet Berle and Means (1932) posit a "third possibility" (p. 355). Passive stockholders, by surrendering their right to manage and be personally responsible for their property and by extension the corporation, also surrender their demand that the corporation be managed solely in their own interests to the exclusion of other stakeholders or society. Controllers of the corporation, by using the corporation's powers, also do not have to manage it solely in the interests of the stockholders, or of themselves:

> The control groups have, rather, cleared the way for the claims of a group far wider than either the owners or the control. They have placed the community in a position to demand that the modern corporation serve not alone the owners or the control but all society. (Berle & Means, 1932, pp. 355–356)

As Berle (1952) noted, early on in the life of the corporation, there were explicit provisions enshrined in statutes that upheld the social role and community purposes of a corporation. These were eliminated over time (see also Konzelmann, Chick & Fovargue-Davies, 2022, in this volume). Yet, when corporations overstep the mark they may be held to account by various means; legislation, court action, action of state agencies, government engagement in the industry through direct provision of services, and finally community outcry that may lead to one of the other types of interventions (Berle, 1952).

These considerations bring us full circle to the prevalent climate as it has shifted over time by such trends as the stakeholder theory of the corporation (Donaldson & Preston, 1995),

stewardship theory of management (Davis, Shoorman & Donaldson, 1997), and the triple bottom line (Norman & MacDonald, 2004). In empirical terms, the Business Roundtable, an influential association of U.S. corporations has explicitly announced that corporations should be led "for the benefit of all stakeholders" (Business Roundtable, 2019, para. 1. The recent public consultation and recommendations by the European Commission (2020) on "Sustainable corporate governance" which seek to explore, inter alia, the scope of directors' duties and how company's interests are interpreted, point to a similar direction.

We argue that in the context of concentrated ownership, owners who are active and engaged in the management of the company, are more likely to be effective than merely managers disconnected from ownership of the corporation, in fulfilling such a broader purpose. As Choi (2018) notes, provided the "private benefits" of majority owners extract are modest, the benefits to the corporation and its stakeholders of a longer-term orientation and adequate investment in innovation can be far greater. Private benefits such as SEW are non-transferable and therefore may motivate those who enjoy them to stay with the firm in the long term and care about the firm's reputation, purpose and longer-term viability.

In this context, engaged majority owners and the directors of the company would not act blindly as shareholders' agents but as "mediating hierarchs," actors who "balance the often-competing claims and interests of the groups that contribute to the team production process, make decisions on the allocation of team surpluses, and are legally ultimately in control of a corporation's assets and key strategic decisions" (Lan & Heracleous, 2010, p. 295). Rather than being responsible solely to shareholders as principals, they would uphold the corporation itself and its long term viability, as a site of the team production process, as the principal; consistent with the legal position on these matters (Blair & Stout, 2001a, 2001b; Heracleous & Lan, 2012; Lan & Heracleous, 2010).

Conclusion

In this essay we examined challenges and potential benefits of concentrated ownership. We argued against the assumptions that concentrated ownership is detrimental to minority shareholders, is associated with weak governance systems and has negative effects on the broader economy. Rather, it may be beneficial in engendering Berle and Means' (1932) "third possibility"; in bringing in a more engaged, longer-term form of corporate control that acknowledges a broader societal purpose of the corporation beyond shareholder enrichment.

We noted that concentrated ownership is prevalent even in corporate governance systems recognized as robust and transparent. We argued that within the context of an effective legal system that discourages abuse of controlling power for pecuniary benefits, non-pecuniary factors such as socioemotional wealth can foster actions that aim for the longevity and success of the enterprise, induce adequate investment, and encourage higher vigilance over managerial actions. In countries with weak legal protections for investors, controlling shareholders with higher non-pecuniary private benefits of control, or socioemotional wealth, are less likely to seek excessive rent from the firm as compared to shareholders with low socioemotional wealth. We argued that the higher the involvement of controlling shareholders in management, the higher the socioemotional benefits involved. We distinguished (in Table 1) between five types of controlling shareholders and showed how the elements of socioemotional wealth can vary across them.

These considerations point to the necessity of rethinking both the (lack of) desirability of diffused ownership, as well as the potentially beneficial aspects of concentrated ownership. Each of the five types of controlling shareholders, as we show in Table 1, may have different types of identification with the firm that in turn may discourage these owners from excessive rent-taking and foster longer-term, stakeholder-oriented and socially responsible thinking and investments. Our

article encourages a nuanced consideration of what type of controlling shareholders a corporation may have, what types of identification exist between these shareholders and the corporation, and to what extent these factors serve to advance Berle and Means' (1932) "third possibility" towards more of a reality. Rather than viewing it as a potential problem, we should therefore see and examine concentrated ownership in terms of its potential for longer-term, societally aware governance.

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Table 1

Applicability of elements of socioemotional wealth across five types of controlling shareholders.

Socio-economic wealth	Dimensions of mFIBER scale	Family	Entrepreneur/ Lone founder	Founder group	State	Institutions
F	Controlling shareholder influence	✅	✅	✅	✅	✅
I	Controlling shareholder identification with firm	✅	✅	✅	✅	✅
B	Binding social ties	✅	✅	✅	❌	❌
E	Controlling shareholder emotional attachment	✅	✅	✅	❌	❌
R	Renewal of controlling shareholder bonds via dynastic succession	✅	❌	❌	✅	❌