
The Value of Control in Private Companies

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Résumé

The controlling shareholder of a company has the potential to extract private benefits of control (PBC). In contrast to shared benefits, PBC are proceeds that accrue only to the majority shareholders. They can take a variety of forms that range from outright theft to a (covert) compensation for private costs incurred in controlling the company.

It is notoriously difficult to measure PBC and the literature only provides a rough guidance based on two methods: the control premium method and the voting premium method. These two methods are based on the logic that PBC must be the reason why the controlling shareholder pays a premium over the market price for a controlling block or why voting and non-voting shares are priced differently.

This paper introduces a third method to estimate the PBC. We look at the discount (compared to a baseline valuation made at the controlling level) that minority shareholders ask to invest in a company. In the context of private companies, we find a discount of 16.72% that translates into estimated PBC of 20.08% (premium per share). We argue that the discount for lack of control can be explained as a discount for private benefits.

Mots-Clés: private benefits of control – discount – valuation – private companies – DLOC

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