7 The Small Shareholder

SUMMARY

Despite the increasing concentration of shares in the hands of financial institutions over the last two decades the small private shareholder remains an important public for many of Britain's largest companies. Research is used by companies to understand more clearly who their shareholders are, to ascertain their expectations of the company and to identify their communications needs. In recent years shareholder research has been increasingly used in takeover battles by both bidders and defenders to develop campaign strategies, monitor developments and refine tactics. It has also been used, since British Telecom in 1984, to guide the flotation of State assets.

INTRODUCTION

Around one-quarter of the shares of the average quoted company in Britain are held by small private shareholders. For some companies the proportion is far higher. In recent years companies have become increasingly concerned to develop a closer relationship with their small shareholders and survey research has helped them in a number of ways. These include:

- Building up an understanding of who the small shareholders are.
- Identifying their needs and expectations from their investments.
- Understanding their behaviour and their intentions.
- Assessing their communications needs and identifying the best ways of meeting these.
- Aiding the development of strategies and tactics during a takeover battle.
- Identifying shareholders' wishes in terms of future company policies, or their likely reactions to proposed policies.

WHO ARE YOUR SHAREHOLDERS?

Privately owned companies can find out from their share register the
number of shareholders they have. Unless they are recorded in the name of nominees they can also find out their sex and geographical dispersion and the size of their shareholding. But from this source they can find out little else.

A little under half (45 per cent) of those who hold stocks and shares in Britain are female, one-third (37 per cent) are aged 55 and over, two-thirds are from middle-class households (ABC1) and one-third from working-class households (C2DE). The government’s privatisation programme from 1984 to 1987 did much to ensure a wider spread of share ownership, especially across the social classes. Whereas in 1984 only 17 per cent of shareholders were working class, in 1987 this had risen to 36 per cent. However, shares in the traditional quoted companies are much more likely to be owned by those living in middle-class households (71 per cent) and less likely to be owned by those from working-class households (29 per cent) (see Table 7.1).

One major industrial company was disturbed to find that while two-thirds of its shareholders had held their shares for over ten years, over a half were aged over 65. Furthermore three out of five regarded their share performance as only ‘average’ or below. The combination of an ageing shareholder profile and a poor rating of share performance, especially among younger shareholders who are more likely to trade their shares, suggested an unstable share-trading pattern for the company in the future, unless remedial action was taken.

While the majority of shareholders are likely to have bought their shares, a substantial minority will have inherited them or acquired them as a gift. Normally the latter will be less likely to sell these shares and will take a less active interest in the performance and activities of the company.

Research for British Telecom four months after its successful flotation showed that three out of five shareholders did not hold shares in any other company. 12 per cent owned shares in only one other company (see Table 7.2).³

RESEARCH FOR COMMUNICATIONS

One of the more widely used applications of shareholder research is in developing and executing shareholder communications programmes. Companies intending to communicate with shareholders should begin with a reasonable understanding of the knowledge and image shareholders have. In this respect research can be used to: