The Separation of Ownership and Control

Name

Course

Tutor

Date

**Introduction**

The separation of ownership and control is a concept that worked to change the way of doing things in organizations effectively. Under this concept, the control of the organization is placed under professionals who are not the owners. This is a concept that allows skilled professionals to run complicated operations of large companies without any influence from the ownership of the company (Ben‐Amar & André, 2006). Separation of ownership and control affects the mind and the body of the organization in different ways.

**The Mind of the Firm**

***Owner’s mind***

Separation of ownership and management causes anxieties (Lee, 2019). The anxiety is a result of separating the shareholders from what they own and have invested. This, in return, brings about an endowment effect after the owners of the firm handover the management roles to the professionals. To mitigate such anxieties, there are two effective ways that the owners can explore. One of these strategies is achieved through distancing institutions. This is an essential tool in alleviating separation anxieties. The distancing institutions serve as the bridge between the owners and the management (Lee, 2019). A typical example of these distancing institutions is the board of directors. These institutions help in dulling the feeling that the owners have about being left out of management due to separation of ownership and control. The other effective way to mitigate the separation anxiety is the willful blindness. Through this, the owners are able to forget about any responsibilities that may cause anxieties by performing a personally essential role (Monsen, Chiu, & Cooley, 1968). The strategy involves the owners assuming in a satisfactory way that most of the responsibilities are placed on other parties.

Additionally, a heuristic for competency is another way through which the owner’s mind is affected and changed by the separation of ownership and control (Lee, 2019). Although the owners appear relieved from the major roles and responsibilities of management, their mind may keep on questioning the competency of the professional manager who they entrusted to manage and control their firm. The owners will use the market share to measure the management performance.

***Manager’s mind***

The separation of ownership and control makes the manager anxious as they are bothered by how they will be judged by the ownership of the firm. Therefore, the managers will tend to have a quest to showcase dominance in the industry. This dominance is achieved by increasing the market share of the company in the sector. Besides, this separation pushes the managers to work towards dominating in the relevant market (Lee, 2019). This dominance is what guides the pursuance of the market share and profits because they have a view that their success will be measure through the two.

**The Body of the Firm**

The separation of ownership and control makes the firm too big (Lee, 2019). This separation pushes the managers to work towards growing the market share through shrinking the capacity of other firms in the market and increasing the capacity of the company in the industry. Shrinking the market capacity can be achieved by driving away competitors and discouraging potential entries through legislation. On the other hand, building and increasing their own capacity can be attained through the building from scratch or by buying from competitors. Once the market share is grown more than 100%, the firm now becomes too big (Lee, 2019). One of the reasons that managers to build an empire is to show their incremental dominance.

The second way that the separation changes the body of the firm is by making it too complex (Lee, 2019). The firm is made too complex because of the manager to ensure dominance translates to the managers think fast and expand the operations of the firm. This growth makes the body of the firm bigger and complex since the company will now have to deal with a variety of products and services (Monsen, Chiu, & Cooley, 1968), which lead us to the complexity feedback loop between complexity and heruristics. Managers prefer to compete in complexity which drives the feedback loop to a higher lever (Lee, 2019)

The third way through which the body of the firm is changed by separation of ownership and control is that it becomes too fragile (Lee, 2019). These efforts by the professional manager make them explore the available funding options to finance the growing costs of operations. Notably, the managers will prefer financing the company operations through debts. As the firm grows, the debts incurred will have to be serviced and which means that new debts will also be incurred, and the firm becomes highly leveraged. A feedback loop begins, the more debt, the empire grows, the more fragile the firm become. The higher debt-equity ratio the higher fragility of the firm. Managers tend to use debt to build an empire because raising equity is unavailable anymore.

Finally, the separation of ownership and control changes the body of the firm by making it too similar. When the firm becomes too similar, it appears to be exposed to risks. Similarity is very risky for the firm because consumers have varying preferences (personal cost) (Monsen, Chiu, & Cooley, 1968). Also, similarity leads to a heavy advertising which set the market up for bubbles (Systemic Cost) (Lee, 2019). By becoming too similar, perfect competition is created, which is not good for any market. This can, however, be mitigating through framing products so as to make them look different and unique.

**References**

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Lee, L. W. (2019). Industrial Organization: Minds, Bodies, and Epidemics. Springer Nature.