

The Nordic Corporate Governance Model

**A study aimed at defining a common Nordic
model of corporate governance**

**Presentation at breakfast meeting
in Oslo 28 January 2015**

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Agenda

- 1. The study in brief**
- 2. The essence of Nordic corporate governance**
- 3. In summary**

The study

Background

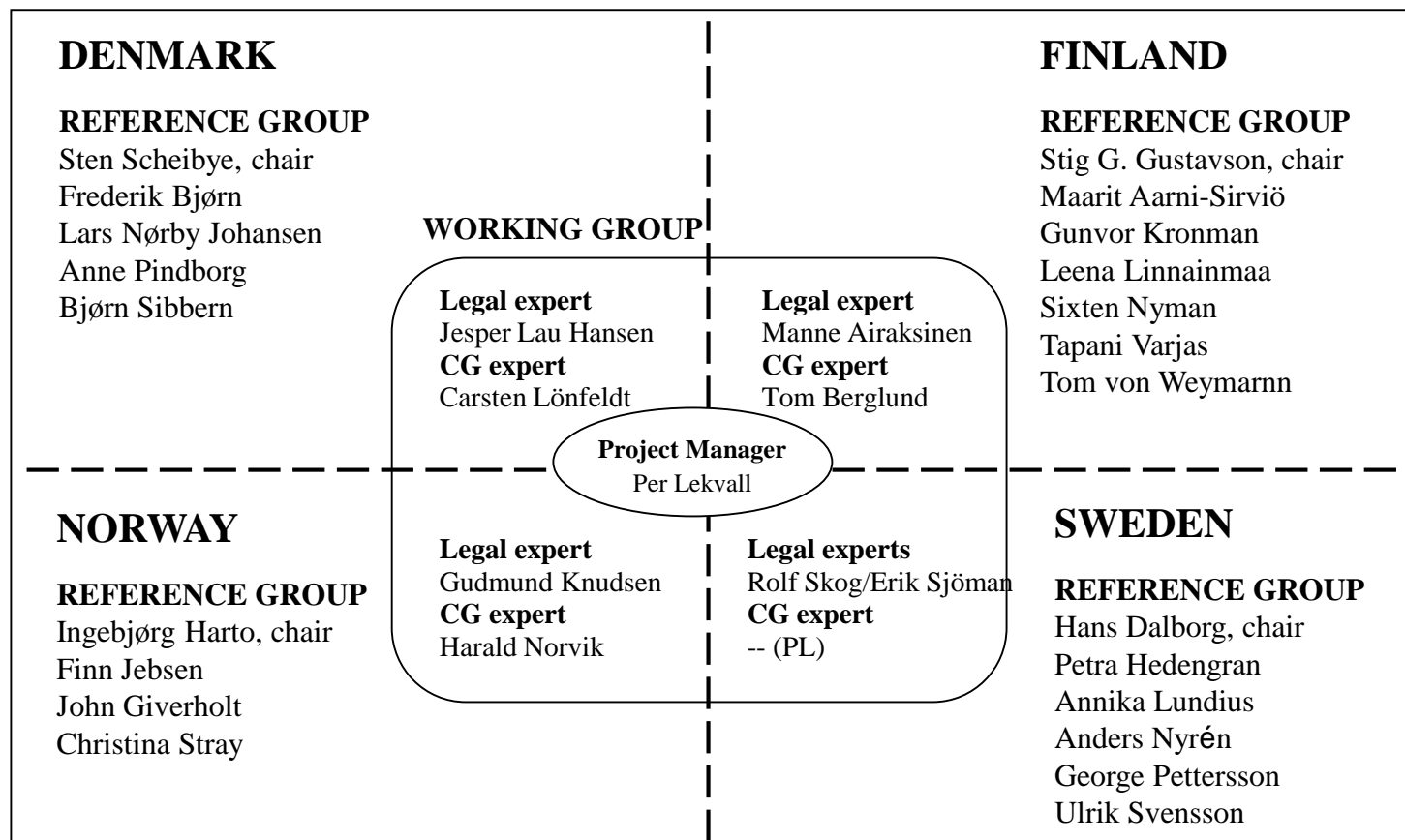
- ❑ Perceived difficulties to obtain understanding and recognition of Nordic corporate governance
 - within the EU system
 - on the international capital market.
- ❑ As individual countries we are small and of little significance on the international scene – together we carry greater weight.

Purpose

- ❑ To define and describe a common Nordic model of corporate governance...
- ❑ ...based on existing legislation, self-regulation and non-codified practice in the four major Nordic countries.

Project organisation

Project Owner: SNS/Pernilla Klein



Structure of the report

Foreword

Executive Summary

I. Introduction

- Background
- Purpose and scope of the study
- Project organisation
- Outline of the report

II. The Institutional Framework of Nordic Corporate Governance

- The regulatory framework
- The market for publicly traded stock

III. A Consolidated Nordic Governance Model

- The essence of the model
- An owner-oriented governance structure
- Shareholder minority protection.

IV. The Nordic Model of Corporate Governance: the Role of Ownership

A comment by Ronald J. Gilson

Appendices

- A. Corporate Governance in Denmark
- B. Corporate Governance in Finland
- C. Corporate Governance in Norway
- D. Corporate Governance in Sweden
- E. Ownership Concentration on the Nordic Stock Markets

The essence of Nordic corporate governance

Starting point

Key issue of modern CG – “*The Agency Problem*”

→ *How to ensure that the company is run by the board and management in the true interest of its owners?*

Classical solution - the Anglo-American model

- ❑ Institutional framework characterized *inter alia* of:
 - Generally highly dispersed ownership structures of listed companies – lack of strong, long-term engaged shareholders
 - Deep-rooted aversion towards control ownership
 - The Board in *de facto* control of the company

- ❑ Prime means of dealing with agency problem:
 - Dispersed investment strategies
 - Open and active markets for corporate control
 - Internal organizational provisions e.g.
 - Independent directors
 - Board committees for dealing with integrity problem of “mixed boards”
 - Moving remuneration decisions upwards in the governance structure

The Nordic solution

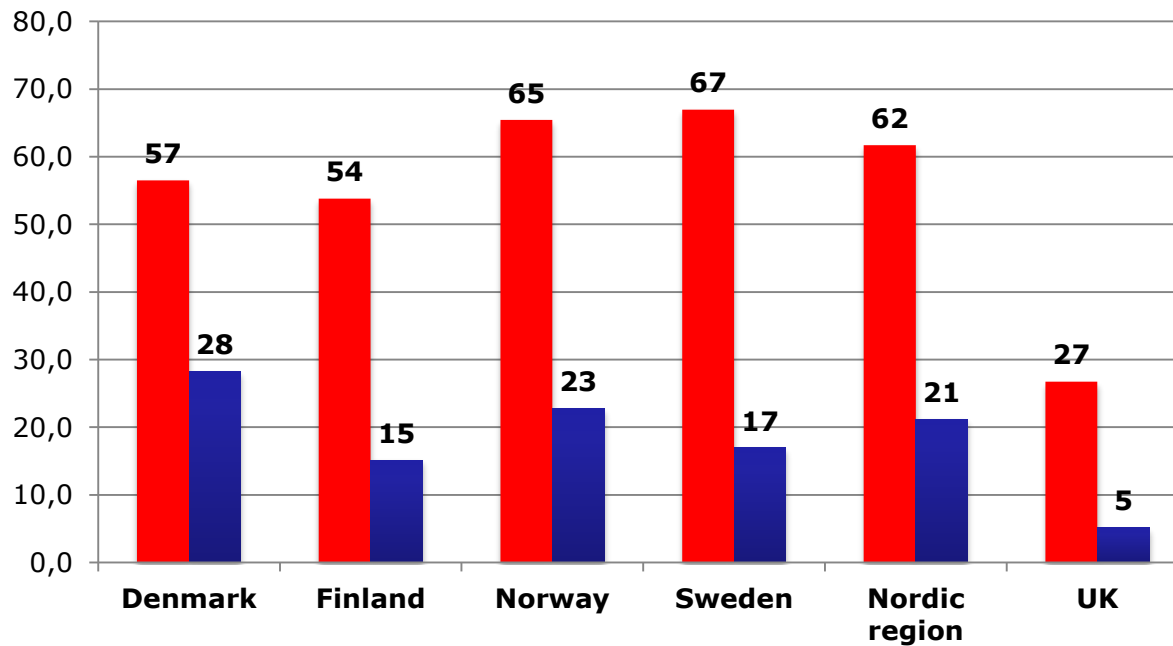
- ❑ **Institutional framework characterized by:**
 - **Concentrated ownership structures of listed companies**
 - **A generally positive view of controlling owners...**
 - **...typically concentrating their investments to one or a few companies where they engage actively in the governance of the company.**

- ❑ **Prime means of dealing with agency problem:**
 - **A hierarchical governance structure, allowing strong owners to effectively control and take a long-term responsibility of their companies...**
 - **... balanced by extensive minority protection measures that effectively curb the scope for control owners to extract private benefits at the expense of minority shareholders.**

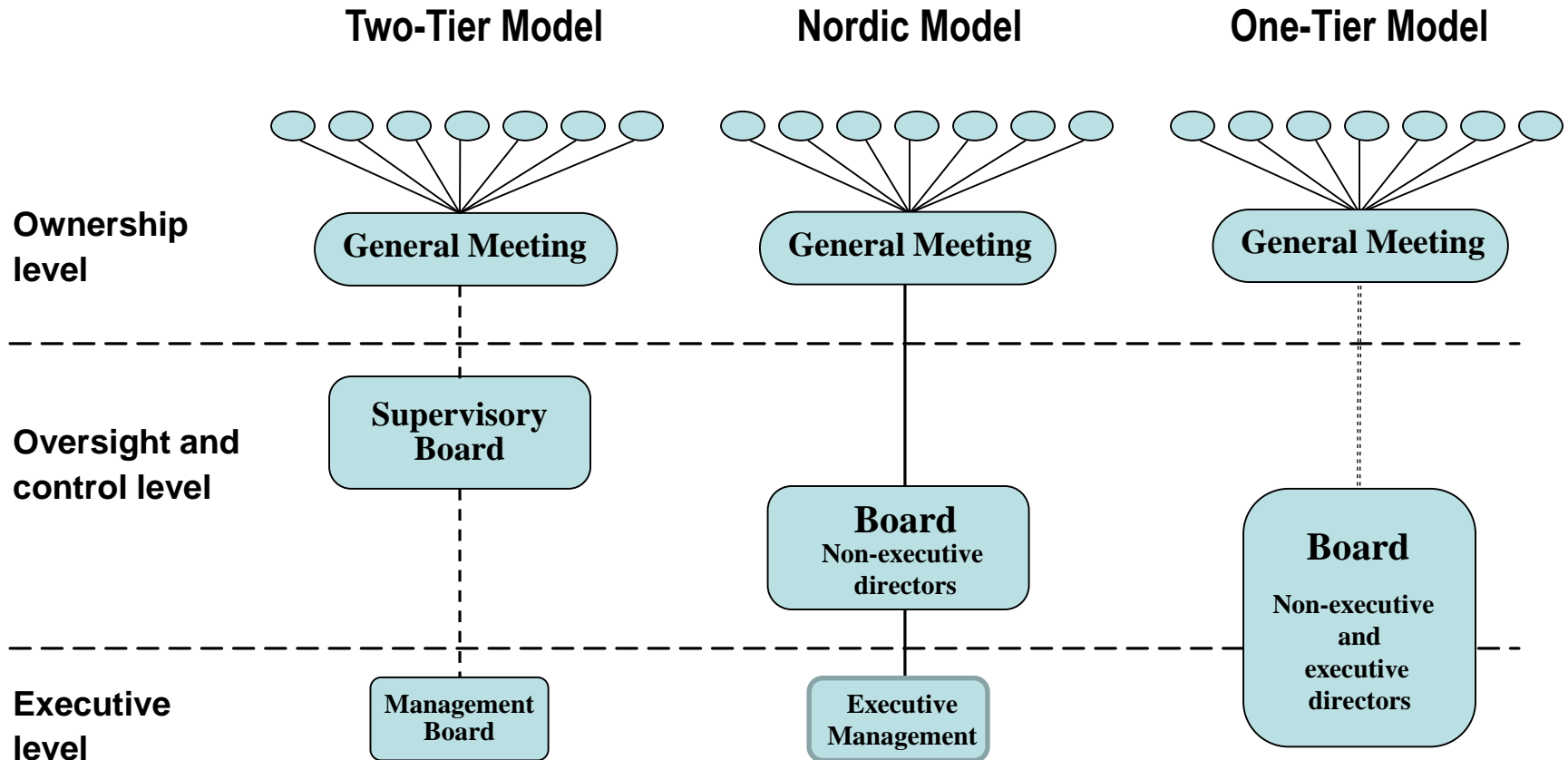
Concentrated ownership

Percentage of listed companies with at least one shareholder controlling more than 20% (red bars) and 50% (blue bars), respectively, of the votes of the company

Source: Study carried out by SIS Ägarservice for the Nordic CG Project



A hierarchical governance structure



Strong minority protection provisions

- ❑ The principle of equal treatment of shareholders
- ❑ Far-reaching individual shareholder rights
- ❑ Majority-vote requirements at GMs of up to total unanimity
- ❑ Minority powers to force certain GM decisions
- ❑ Related-party transactions allowed provided market terms and full transparency
- ❑ High degree of transparency towards shareholders, the capital market and the society at large

Does the Nordic minority protection system work?

*Median value of control-block votes in different legal systems *)*

French civil law jurisdictions **23 %**

- Including France 27%, Italy 30%, Mexico 37%

German civil law jurisdictions **16 %**

- Including Germany 5%, Switzerland 1.5%

Anglo-Saxon common law jurisdictions **1.6 %**

- Including UK 7%, US 0.7%, Canada 0.5%

Nordic jurisdictions **0.5 %**

- Denmark 0.3%, Finland 0.5%, Norway 4%, Sweden 0.4%

*) Nenova, T.: *The Value of Corporate Voting Rights and Control: A Cross-country Analysis*.
Journal of Financial Economics 68 (2003), pp. 325-351.

In summary

- A model designed to allow strong owners to largely control their companies...
- ...in the belief that such owners will have stronger incentives and greater resources to engage in and take a long-term responsibility for the companies than what can generally be mustered by minority investors...
- ...to the benefit of all shareholders.