

Corporate Governance from the Outside-In: The Influence of the Welfare State in Nordic Corporate Governance

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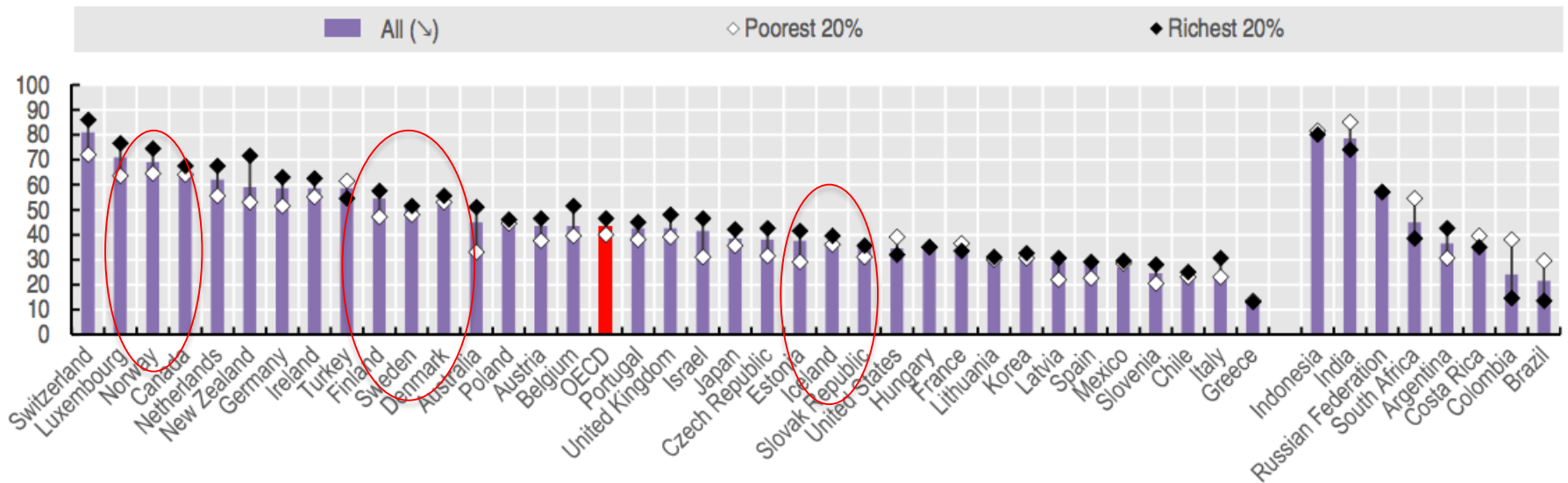
Outside-in model

- Putting stakeholder interests first
- Stakeholder: any group or individual who can affect or is affected by the achievement of the firm's objectives'
 - (R.E. Freeman, 1984, Rhenman, 1964)
- Inside-Out: Shareholders first
 - (Friedman Doctrine, 1962 – Capital and Freedom
 - Michael C. Jensen, Theory of the firm: Managerial Behavior, Agency Costs and Ownership Structure (1976)

High level of trust

8.4. Less than half of the OECD population reports trust in their national government

Percentage of people reporting having confidence in national government, by household income, in 2016-17

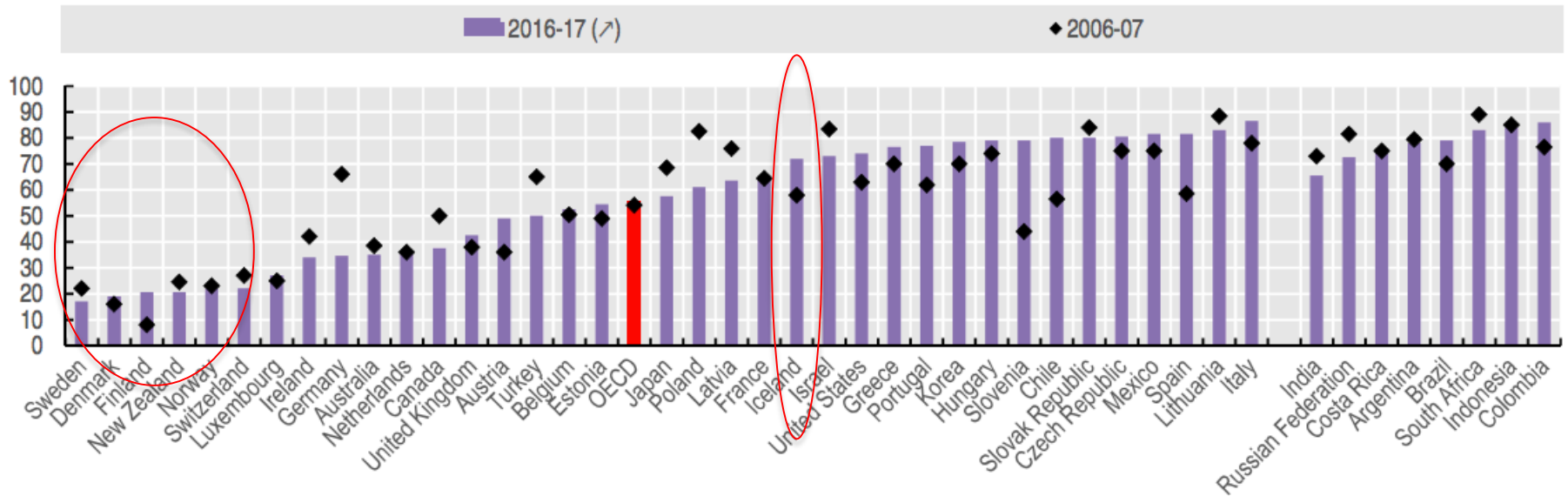


Source: Gallup World Poll, www.gallup.com.

Low perceived corruption

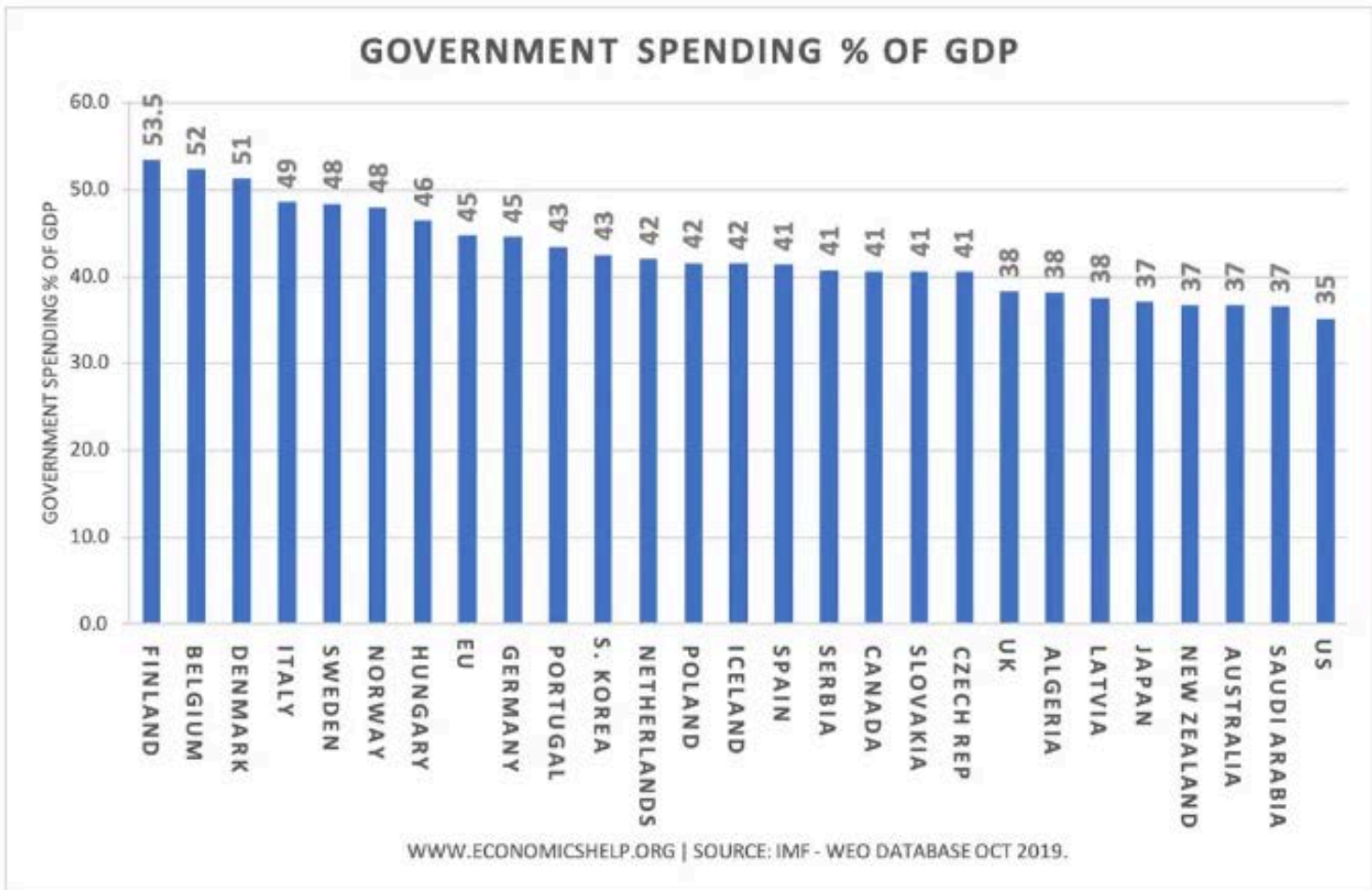
8.6. More than half of the population perceives corruption in their government

Percentage of people reporting that corruption is widespread throughout the government, in 2016-17 and 2006-07



Source: Gallup World Poll, www.gallup.com.

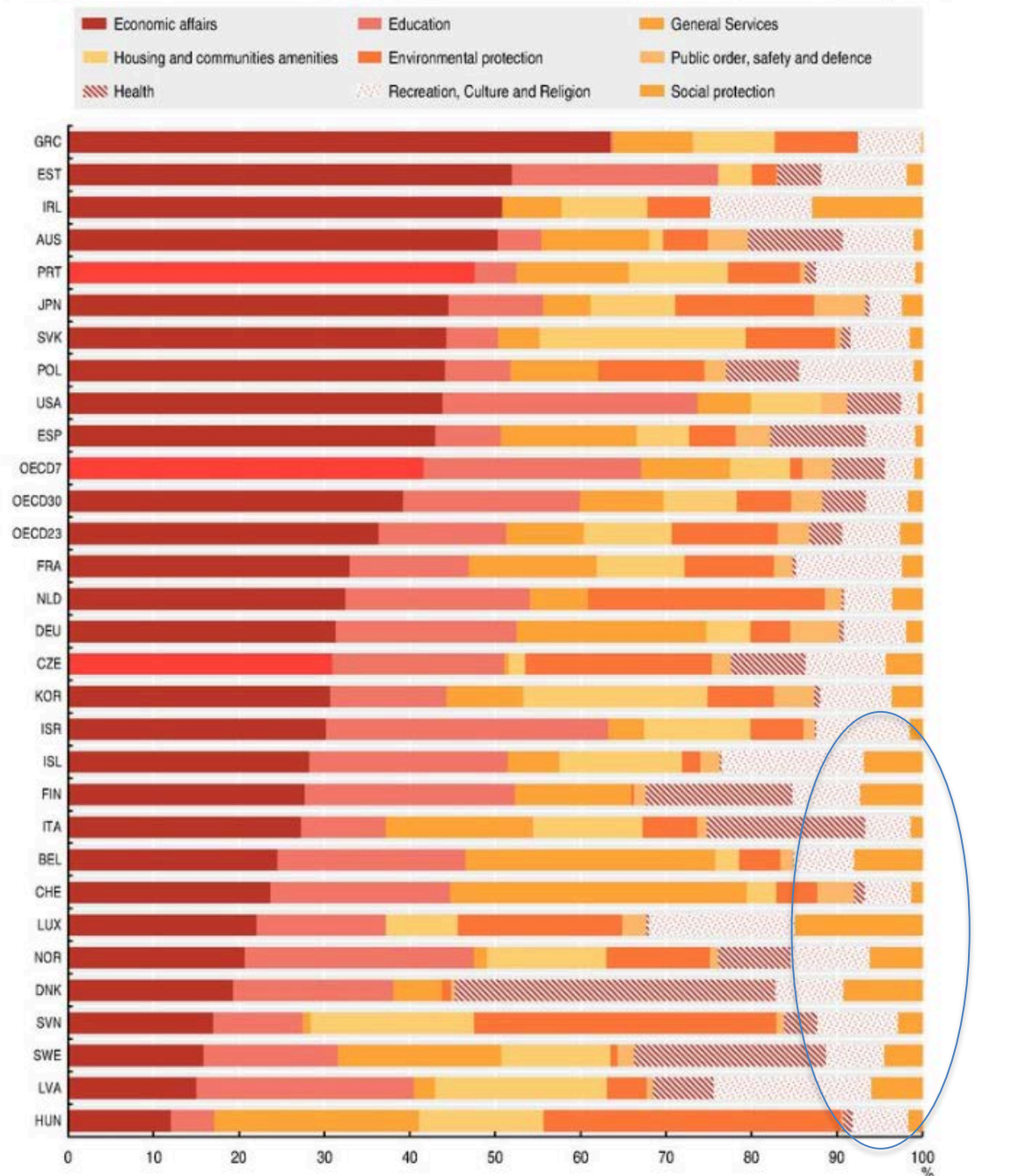
Large government sector



5.14. Breakdown of SNG investment by economic function as a % of total SNG investment, 2016

Income transfers

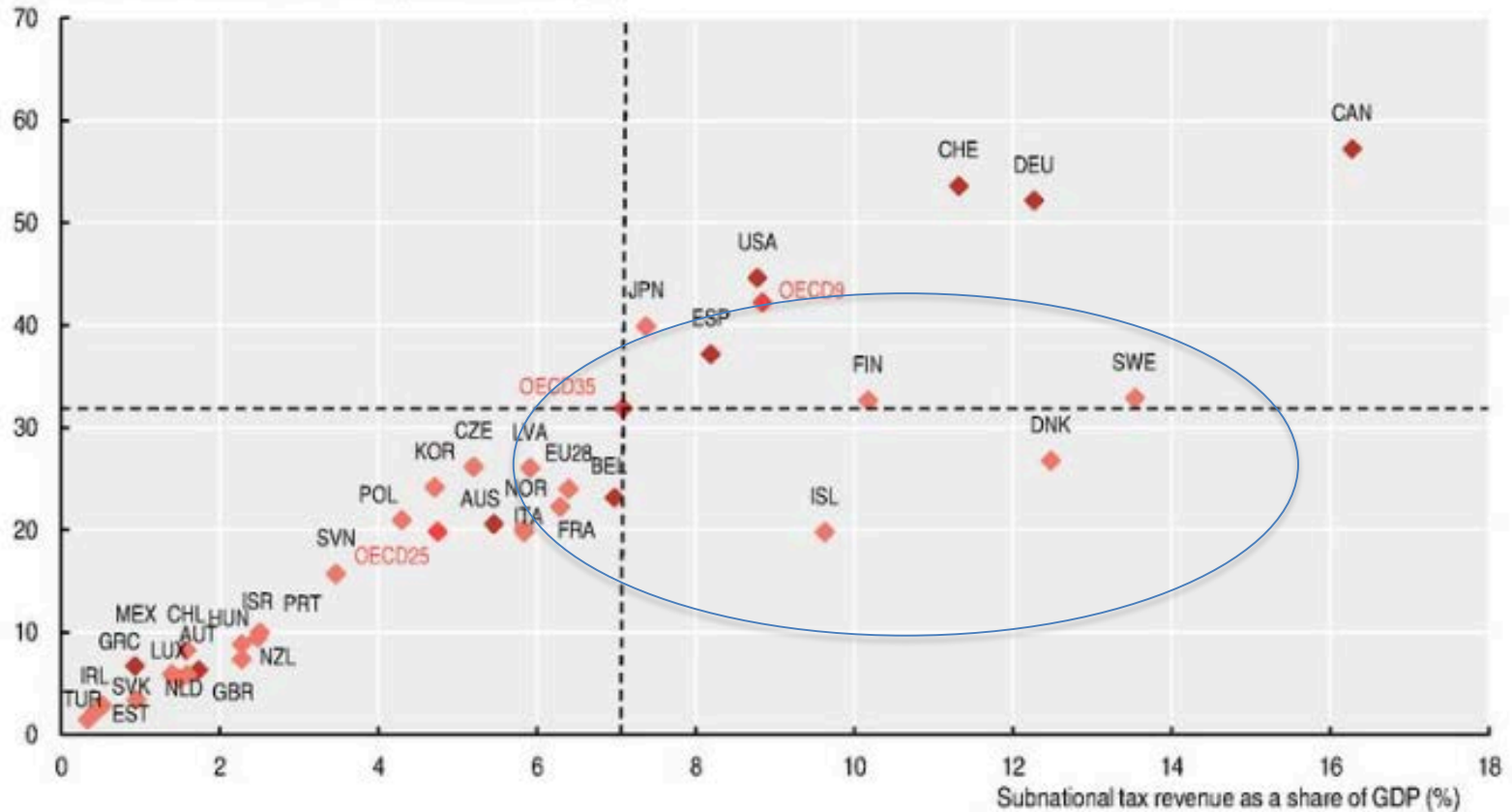
- Pensions
- Unemployment benefits
- Social protection



High taxes

5.21. Subnational government tax revenue as a % of public tax revenue and as a % of GDP, 2016

Subnational tax revenue as a share of public tax revenue (%)

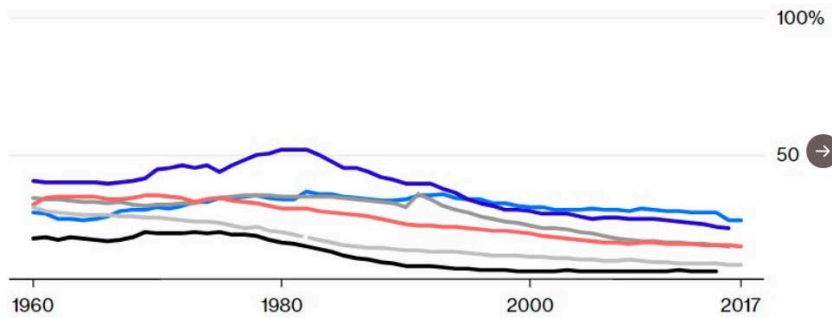


Strong Labor Unions

Union Members Are a Shrinking Minority

Percentage of workers who belong to unions

Canada France Germany Japan U.K. U.S.

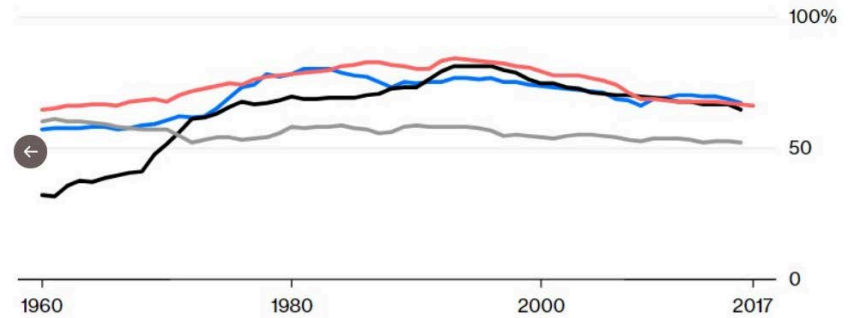


Source: Organization for Economic Cooperation and Development
Administrative data for France, Germany, Japan and the U.K., and Canada through 2015 and the U.S. through 1980, with survey data after that.

It's Different in the Nordic Countries

Percentage of workers who belong to unions.

Denmark Finland Norway Sweden



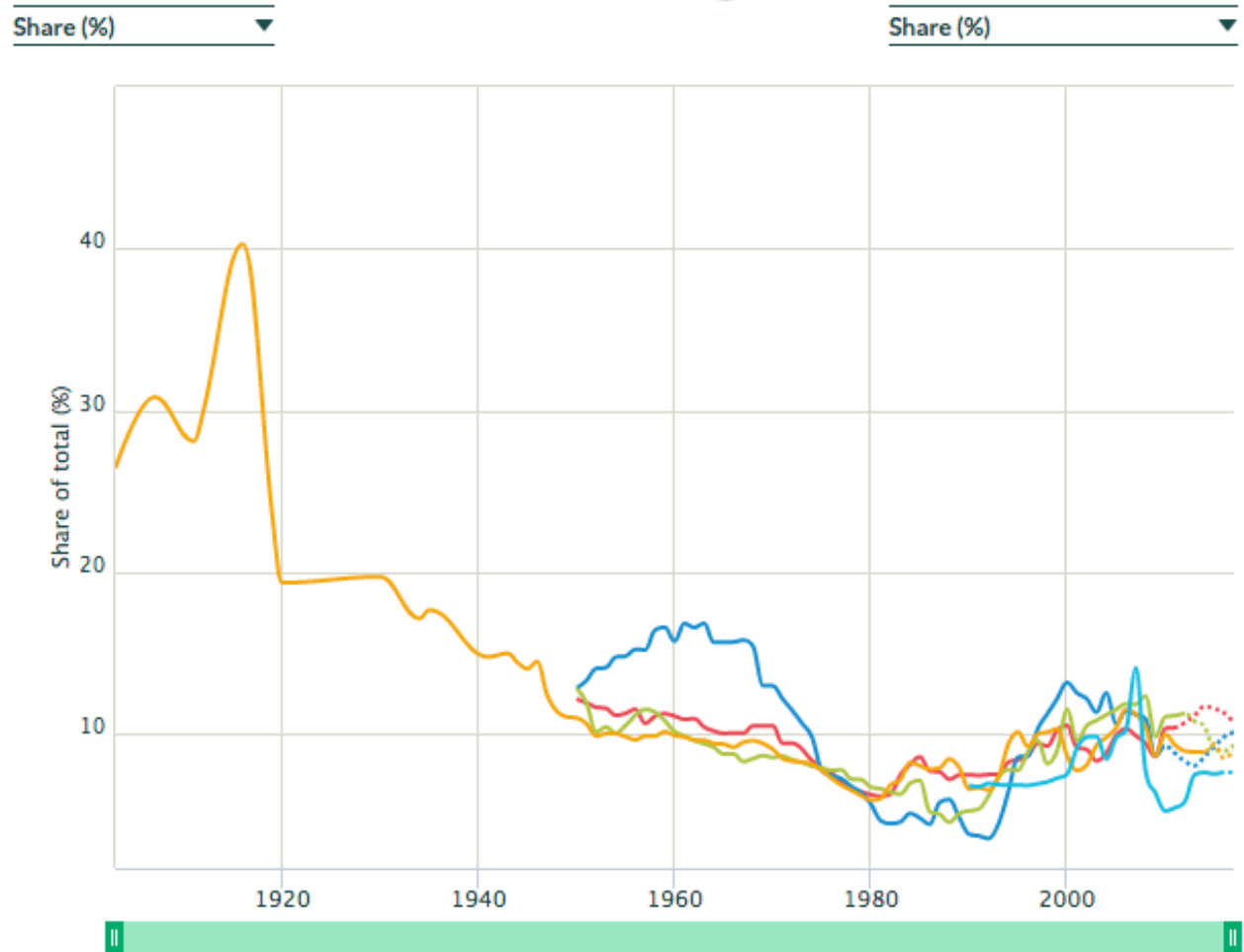
Source: Organization for Economic Cooperation and Development
Administrative data for Denmark and Finland, and for Norway through 2015 and Sweden through 1986 with survey data after that.

Employees' representation and weak two tier boards

- A German innovation imitated by SWE, DNK, FIN,
- Concentrated ownership as countervailing force to the power of labor unions (Roe, 1994)
- Management board – Supervisory Board
 - Executive vs. non-executive

Top 1% national income share

Low Social
&
Economic
Inequality



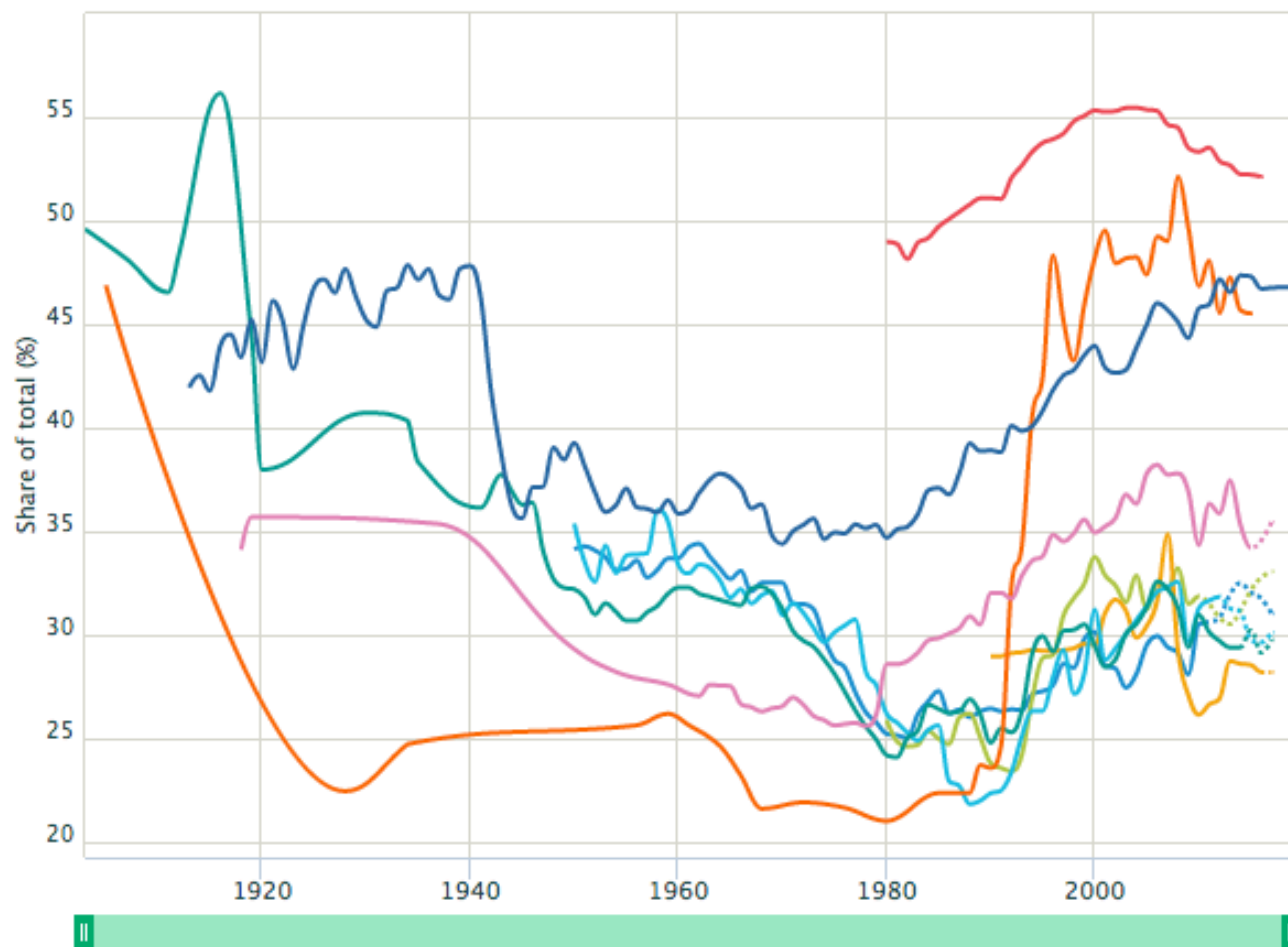
Denmark × Finland × Norway × Sweden × Iceland ×

Top 10% national income share

Low Social
&
Economic
Inequality

Share (%)

Share (%)



- World
- Denmark
- Finland
- Iceland
- Norway
- Sweden
- Russian Federation
- United Kingdom
- USA

Brief history of the Nordic Company Law

- First formed in the latter part of 19th century
- Sweden led the way – DK, FIN, NOR follow suit in 1960s
- EFTA and EU membership 1972 – 1994 leads to adaptation to EU company law
- Nordic company law still manifestation of traditional shareholder primacy
 - Boards' representing shareholders - AGMs
 - Profit main purpose
 - Long term value of the firm
 - Shareholders' rights are secondary
 - Shareholders possess the ultimate decision making power
 - Shareholder activism

Pan Nordic Companies

- Cross border mergers have attracted international investors – institutional shareholders
- Led to market driven radical shareholder primacy a la Anglo-Saxon codes
- Some confusion remains – shareholders are not owners of the company according to Nordic Company Law

Recent Overhaul of Nordic Corporate Governance Codes

- New codes seek to
 - move ethical guidelines
 - integrate social values on to the board
 - Value creation for stakeholders
 - Govern companies conduct in society
 - Emphasis on long term value creation
 - Sustainably run companies
- Purpose of the law on financial undertakings ensure that financial institutions are operated for the benefit of customers, shareholders and society at large.. Iceland 2010

Ownership Concentration

- Third of firms have a single shareholder controlling more than 20% of votes
- 20% of companies have absolute control of a single shareholder – more than 50% (Lekvall)

Gender balanced boards

- Mandatory gender quota on corporate boards in (40%) Norway (2003?) and in Iceland (2010)
- Gender not a decisive factor for profitability or financial distress
- Gender quota – good to attain equity of the genders – not to introduce risk aversion or sustainability (Zheng & Johnsen, 2019, Johansen and Sandnes (2008) and Ahern and Dittmar (2012), Matsa and Miller(2013), Eckbo, Nygaard, and Thornburn (2016)

Foreign investors

- 40% of aggregate stock market value in the Nordic region owned by foreign investors
- 35% foreign owned in Finland
- 51% of stock value in Denmark
- Most companies are “small caps”
- Retail shareholding is low – except in Sweden.

Long-termism vs. short termism

- Trademark of the Nordic model
- Nordic states / pension funds are large shareholders
- Old money - Family wealth – backbone of control
 - AstraZeneca, Electrolux, Ericsson, Saab, SEB etc.
- Industrial foundations in Denmark
 - Carlsberg, Novo Nordisk, Lundbeckfonden, APMöller

Manias, panics and crashes

- The Nordics are bank based fin systems (apart from Denmark)
- Financial liberalization in '80s & '90s
- Banking failure in '90s and '00s led to:
 - Banks not permitted to hold non-financial shares
 - Cap on incentive pay as a result
 - Bankers found guilty of fraud and manipulation in Iceland
 - The states are large shareholders of banks in Norway and Iceland
 - Easier to reign in management and boards if irresponsible
- Covid test of banks – today well capitalized – insolvencies loom large...

The State as a Shareholder

- Mixed ownership is common in the Nordics
 - Private, government, wealth fund, municipals, pension funds
- CSR agenda more prevalent – but profit maximization is still the main driver
- Pension funds subscribe to UN Sustainability Goals and Principles for Responsible Investments
- Norway in a class of its own – large state owned enterprises in energy and oil sector
- Interesting cases – such as the US Government as largest shareholder in GM post GFC

Deviation from the Friedman Doctrine?

- Letter of the company law, neutral to company purpose and interests
- Codes have been prepared by:
 - Law firms,
 - Stock exchanges
 - Companies
 - Institutional Investors
- Profit maximization dominated –FIN, NOR
- Moral suasion rather than legal requirement for long term sustainability