The Nordic Corporate Governance Model

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

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Per Lekvall
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 scepticism towards control ownership
  - The Board *de facto* in 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 control and take a long-term responsibility for 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

Ownership level

Oversight and control level

Executive level

Two-Tier Model
- General Meeting
- Supervisory Board
- Management Board

Nordic Model
- General Meeting
- Board (Non-executive directors)
- Executive Management

One-Tier Model
- General Meeting
- Board (Non-executive and executive directors)
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*)

<table>
<thead>
<tr>
<th>Legal System</th>
<th>Median Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>French civil law jurisdictions</td>
<td>23 %</td>
</tr>
<tr>
<td>• Including France 27%, Italy 30%, Mexico 37%</td>
<td></td>
</tr>
<tr>
<td>German civil law jurisdictions</td>
<td>16 %</td>
</tr>
<tr>
<td>• Including Germany 5%, Switzerland 1.5%</td>
<td></td>
</tr>
<tr>
<td>Anglo-Saxon common law jurisdictions</td>
<td>1.6 %</td>
</tr>
<tr>
<td>• Including UK 7%, US 0.7%, Canada 0.5%</td>
<td></td>
</tr>
<tr>
<td>Nordic jurisdictions</td>
<td>0.5 %</td>
</tr>
<tr>
<td>• Denmark 0.3%, Finland 0.5%, Norway 4%, Sweden 0.4%</td>
<td></td>
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</tbody>
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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.