The Nordic Corporate Governance Model

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Some institutional preconditions

- Common heritage of company legislation
- Concentrated ownership structure

Presence of significant shareholders (> 20%) among ~20 largest listed companies

Sources: EU countries: European Commission Study on Proportionality between Ownership and Control, 2007
US, Norway: La Porta, Lopez-de-Silanes & Shleifer: Corporate Ownership Around the World, 1999
Some institutional preconditions

- Common heritage of company legislation
- Concentrated ownership structure
- Small countries - small business communities
- Employee board representation (except Finland)
A different governance model

One-Tier Model

Ownership level

Steering and monitoring level

Executive level

Nordic Model

Two-Tier Model
Key features of Nordic corporate governance

1. STRICTLY HIERARCHICAL GOVERNANCE STRUCTURE

- Formal chain-of-command throughout the governance process
- Entirely/predominantly non-executive Boards
- Statutory separation of roles of Chair and CEO
2. THE OWNERS IN COMMAND

- **Strong General Meeting powers**
  - Sovereign to decide on all company affairs
  - Board fully subordinate to the GM - and can at any time be dismissed without stated reason
  - Auditors appointed by and accountable to the owners

- **Availability of CEM’s (Control Enhancing Mechanisms)**
  - Freedom of Contract prevails
  - Prime technique = multiple voting rights

- **Major owners taking active role in governance process**
  - Exercising ownership power at the GM
  - Taking seats in boards - can make up board majority
  - Owner-controlled nomination committees (Norway and Sweden)
3. STRONG MINORITY PROTECTION

- Extensive individual shareholders’ rights
  - Strict legal provision of equal treatment of shareholders
  - A single share suffices to exercise all shareholder rights at the GM
  - Most EU Shareholders’ Rights Directive provisions already in place

- Minority of various sizes can block major GM decisions
  - Amendments of Articles of Association
  - Mergers / de-mergers
  - Changes in capital structure

- Minority of 5-10% can force certain decisions
  - Summon extraordinary GM
  - Call for minority auditor and/or “special examination”
  - Minimum profit distribution
In short - slightly oversimplified...

“US/UK corporate governance is all about protecting weak owners against strong boards & managements”

whereas

“Nordic corporate governance is all about protecting small owners against big owners”