The Nordic Corporate Governance Model

ICGN Mid-Year Meeting

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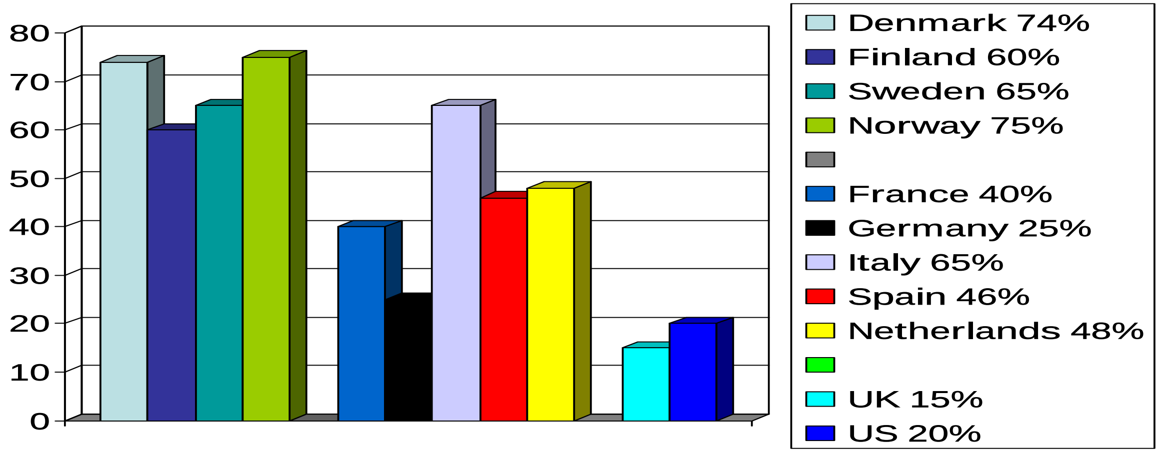
The Swedish Corporate Governance Board

Some institutional preconditions

- Common heritage of company legislation
- Concentrated ownership structure



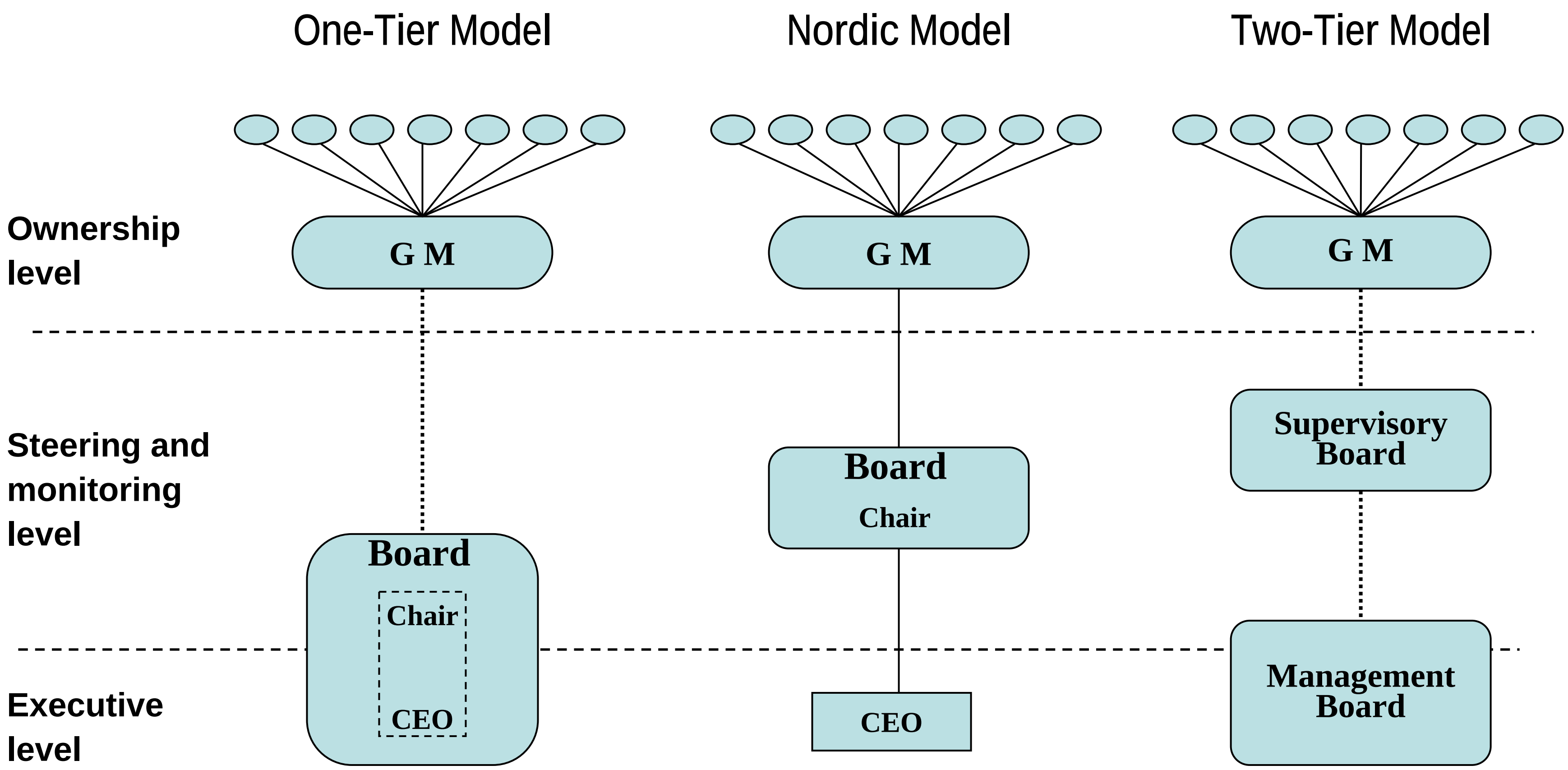
Presence of significant shareholders (> 20%) among ~20 largest listed companies

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



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”