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Foundation ownership, reputation, and labour

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Abstract: A number of firms in northern Europe and especially in Denmark are owned by private foundations similarly to what would have been the case if the Ford Foundation had owned a majority of the shares in Ford Motor Company. Foundation-owned companies appear to perform surprisingly well in terms of profitability and growth, despite lacking governance mechanisms such as profit incentives or takeover threats. Given their non-profit ownership, they might be expected to behave more responsibly towards stakeholders, such as employees or customers (Hansmann, 1980), but so far there has been little empirical evidence to support this hypothesis. This paper presents new research on the reputation and responsibility of foundation-owned companies. In a panel of large Danish companies 2001–11 we find that foundation-owned firms have better reputations and are regarded as more socially responsible in corporate image ratings. Secondary evidence on labour market behaviour is consistent with these findings. Using matched employer–employee data we show that foundation-owned companies are more stable employers, pay their employees better, and keep them for longer. Altogether, the evidence indicates that foundation-ownership is associated with more responsible business behaviour towards employees.

Keywords: foundation ownership, reputation, labour, corporate governance

JEL classification: G34, L21, L31, J54

I. Introduction

Following the financial crisis, commentators around the world have called for more responsible corporate governance. Colin Mayer (2013) advocates redesigning modern corporations to allow greater 'firm commitment'. Nordic foundation-owned companies may be the closest real world example of such a structure.

A handful of important companies around the world are owned by foundations which seek to combine charity with responsible business ownership. Examples include the Tata Group, the Wallenberg Group, Robert Bosch, Rolex, Hershey, and Carlsberg. Previous research has indicated that such businesses are financially competitive, but there has been surprisingly little evidence on their social responsibility.

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In this paper we make use of a unique data set on Danish foundation-owned firms. Foundation-owned companies are nowhere as common as in Denmark, where they constitute 70 per cent of stock market capitalization of half of the country's R&D.

The paper first presents evidence from a Danish reputation survey that foundation-owned companies have better reputations and are perceived as being more socially responsible and having better labour relations than other companies. Second, using Danish labour statistics, we show that this is not just a question of appearances. Foundation-owned companies are more stable employers, pay their employees better, and keep them for longer.

II. Background on industrial foundations[1]

Foundation-owned companies are found around the world in Denmark (Carlsberg), Sweden (Trelleborg), Norway (Kavli), Germany (Robert Bosch), Switzerland (Rolex), France (Pierre Fabre), and India (Tata). Although they are a rarity in common law countries, Hershey is an example in the US. Lloyds Register and the Guardian are probably the largest in the UK. Nowhere are they as numerous and as important as in Denmark. For an overview we refer to Thomsen (2017).

Typically, industrial foundations—the foundations that own them—are founded by entrepreneurs who wish to secure the future of the company, which they regard as their contribution to society. The founders establish the foundations and donate their company stock to them The donation is irrevocable. The foundations are governed by a foundation board whose fiduciary duty is to the foundation and the goals expressed in its charter. The principal assets of the foundation are shares in the company from which it receives dividends. Most combine a business goal (preservation and development of the company) with a philanthropy funded by dividends from the company. The founding family is active in about half of the foundation boards, but cannot by law constitute a majority of the board.

Some of the largest industrial foundations have listed their shares on the stock exchange and maintain control through dual class stock. Three of the four largest listed Danish companies—Novo Nordisk, Maersk, and Carlsberg—are foundation-owned in this way. However the majority have remained private.

Danish industrial foundations are regulated by the 'Law on Enterprise Foundations'. They are supervised by the Danish Business Authority, to which they must submit audited annual reports and any other information which the supervisors ask for. However supervision is limited to legality issues, i.e. whether the foundations comply with the law and their charter. The supervisors cannot challenge business decisions except in so far as they involve unusually risky issues which put the survival of the foundation at risk. For such decisions the foundations have to ask the regulator for approval.

The foundations are conservatively managed. They are truly long-term owners and almost never sell shares in their core companies (Børsting *et al.*, 2014). They rarely borrow, and even foundation-owned companies have lower debt/equity ratios than

[1] This section builds on Thomsen (2017).

comparable business companies with other owners. Risk aversion springs partly from concentrated investment in a single company and partly from a preference for the preservation of the company which may be implicit or explicitly expressed in the charter. Their governance is characterized by longtermism (Børsting *et al.*, 2014), for example, longer tenure for directors and executives in foundation-owned companies. Survival rates are also higher, although they do buy and sell subsidiaries as part of normal business restructuring.

Although there are examples of companies like Novo Nordisk which have been foundation-owned since their formation, foundation-owned companies tend to be mature since they typically succeed founders of a relatively successful company as owners. High wealth taxes provided an incentive for Danish business owners to establish foundations in the 1970s and 1980s, but since then wealth taxes have come down and, following changes in tax law in 1998, business owners must now pay 40 per cent capital gains taxes before they can pass on ownership to a foundation. In contrast, taxation on inheritance to next of kin is 15 per cent. As a result few large industrial foundations have been established since then.

As economic theory would predict, industrial foundations are mainly found in the high tax countries of Northern Europe, which implies a strong nation effect. In contrast, the industry effect is relatively weak, and Thomsen (1999) found no systematic association between foundation ownership and industry. Subsequent work by Hansmann and Thomsen (2013) noted that foundation ownership is scattered over many industries, as diverse as phamaceuticals, shipping, retailing, or engineering, but nevertheless found significant industry effects. A particularly high concentration of foundation-owned companies was found in newspapers, consulting engineering, and property.

While non-profits have been active in Denmark and elsewhere for centuries (the University of Oxford is sometimes mentioned as an example), the first modern example of an industrial foundation is Carlsberg. The Carlsberg foundation was established by a share donation in 1876 and received the rest of the Carlsberg shares on the death of the company's founder in 1887. At the time Carlsberg was one of the largest companies in the country and its transition to foundation ownership became a role model for other business owners. Over time they have grown to account for a substantial share of the Danish economy. We estimate that foundation-owned companies currently account for 5 per cent of Danish employment, 10 per cent of value added, 50 per cent of R&D, and 70 per cent of stock market capitalization.

III. Theory

Since Hansmann (1980) it has been known that non-profit (i.e. foundation) ownership can reduce the likelihood that companies renege on implicit contracts with stakeholders such as customers or employees (Thomsen, 2017). Non-profit ownership removes or attenuates the economic incentive to do so. In the language of game theory (Schelling, 1960, 2005), foundation ownership is a commitment device sanctioned by government regulation. Its defining feature is precisely that no one has a claim on its residual income. Founders, managers, or third parties who seek to extract such rents from the foundation can be prosecuted. Foundation ownership therefore produces a type of ownership

commitment which is close to what Colin Mayer (2013) calls for. Theoretically, this should allow foundation-owned companies to have better stakeholder relations and to pursue long-term strategies which other companies cannot easily replicate. Above all, foundation ownership lends credibility to explicit and implicit commitments by the company.

To be sure, eliminating the personal profit motive comes at the cost of dulled incentives and greater difficulty in attracting outside capital. Whether the benefits exceed the costs will vary from firm to firm and over time. For example, foundation ownership may be more appropriate for mature, knowledge-intensive companies than for start-ups which require agile entrepreneurship and outside financing.

The key competitive advantage of foundation-ownership is probably committed long-term capital which, in the first instance, implies lower costs of invested equity. Industrial foundations will typically allow companies to retain earnings for promising investments. Foundation-owned companies may also be able to borrow at particularly favourable rates because of their conservative capital structure, risk aversion, and committed ownership. However, beyond the patient capital invested by the foundation, the implied costs of capital may be high, and in some cases even prohibitively high since the foundations are reluctant to dilute their ownership (at least below 51 per cent threshold) by allowing outside investors to come in. The reluctance of the foundation to risk the company even for positive net present value investments points in the same direction as does the higher equity to assets share demanded by an undiversified investor. Finally, industrial foundations are generally reluctant to borrow at levels which could threaten the independence of the company. Most empirical studies find that foundation-owned companies have lower growth rates (e.g. Hansmann and Thomsen, 2013) which supports the hypothesis that foundation-owned companies are capital constrained (have high costs of capital) on the margin, even though they have low average costs of equity.

For foundation ownership to be financially competitive, the disadvantages of dulled incentives and capital constraints must be matched or outweighed by advantages of firm commitment *à la* Mayer (2013). In this context implicit contracts with key stakeholders may play an important role. Customers may be more likely to trust foundation-owned companies which can therefore charge higher prices and realize the profit margins necessary to afford higher costs of capital. Suppliers may be more loyal and accept lower prices if they know that foundation-owned companies are less likely to turn on them opportunistically.

Finally, talented employees may be more likely to seek employment at foundation-owned companies and they may be less likely to quit which could reduce labour turnover and effective labour costs. Theoretically, employees are more likely to invest in firm-specific skills if they feel more secure in their employment, and this could be productive for the company as a whole. Popadak (2013, see below) finds that more patient capital (less shareholder pressure, 'weaker' governance) may allow companies to foster a more productive corporate culture with less focus on short-term profits and greater focus on customer satisfaction, integrity, and collaboration. In this paper we examine whether foundation-owned companies do in fact have better labour relations.

Previous research has found that foundation ownership is generally financially viable with rates of return equivalent to those of other companies (see the references below in section IV). However, we would expect foundation-owned companies to have somewhat different business models because of their advantages in making credible long-run

commitments—and the associated disadvantages of attenuated incentives. For example, one would expect foundation-owned companies to have more loyal customers and employees because they can more credibly commit to long-term implicit and explicit contracts. As a result, we would expect them to have better overall reputations, and we would expect the good reputations to be rooted in their actual behaviour.

In this paper we examine whether these hypotheses are supported by empirical evidence. We use Danish data first of all because Denmark is the foundation ownership country *par excellence*. This means that we can observe a large number of foundation-owned companies over time. Second, using Danish register data, we are able to match employees and companies in the population and thus to provide a comprehensive and accurate comparative analysis of Denmark's labour relations.

IV. Literature review

It is clear that a good reputation is a valuable asset (Kreps, 1986). Theoretically, a firm with a higher purpose may benefit by recruiting better employees (Henderson and van den Steen, 2015), or it may grow by continually investing in a reputation for high product quality (Rob and Fishman, 2005). Empirically, Roberts and Dowling (2002) find that firms with good reputations are better able to sustain superior profitability. Raithel and Schwaiger (2015) find that corporate reputation predicts stock market performance. Aksoy *et al.*, (2008) find that customer satisfaction drives stock returns, while McGuire *et al.*, (1990) found a reverse effect of firm performance on perceived product quality. Edmans (2011) estimates that employee satisfaction drives stock market performance, while Flanagan and O'Shaughnessy (2005) observe that layoffs harm corporate reputation. Focke *et al.*, (2017) find that managers in well-reputed companies accept lower pay. However, Bednar *et al.*, (2015) discover that the same phenomenon (poison pills) is perceived differently in different constituencies (analysts, executives) which sows doubt on the notion that a company has a single reputation.

However, the literature on ownership and reputation is remarkably scant. An exception is Anderson and Reeb (2003), who maintain that family-owned firms may benefit from better reputations:

> Founding families also face reputation concerns arising from the family's sustained presence in the firm and its effect on third parties. The long-term nature of founding-family ownership suggests that external bodies, such as suppliers or providers of capital, are more likely to deal with the same governing bodies and practices for longer periods in family firms than in nonfamily firms. Thus, the family's reputation is more likely to create longer-lasting economic consequences for the firm relative to nonfamily firms where managers and directors turn over on a relatively continuous basis.

As evidence, they point to the lower cost of debt financing for family-owned firms compared to non-family firms. However, Delgado-García *et al.* (2010) find that ownership concentration tends to erode company reputation among Spanish firms, while institutional ownership has a decidedly negative reputation effect. They attribute the distinct Spanish results to a lower level of investor protection compared to the USA.

Soleimani *et al.* (2014) find that reputation drivers may in fact differ between international corporate governance systems. For example, shareholder value tends to have a stronger reputation effect in countries with strong shareholder rights, while the negative reputation effect of profit volatility is stronger in countries with stronger creditor rights.

Labour managed firms or partnerships may also have better labour relations. Storey and Salaman (2017, in this issue) show examples of responsible labour practices in a case study of the John Lewis Partnership (a major UK retailer with 90,000 employees), whose employee benefits rank in the top 10 per cent of those offered by UK employers.

In the related literature on corporate social responsibility (CSR), Jo and Harjoto (2012) report a positive causal effect of stronger corporate governance (including insider ownership) on CSR, but no effect of CSR on governance, which implies a unilateral direction of causation from governance to CSR. In contrast, Borghesi *et al.* (2014) find evidence that CSR investment reflects managerial preferences rather than shareholder value maximization.

The literature on governance and labour tends to find a negative relation between strong (shareholder friendly) corporate governance and employee welfare. Pagano and Volpin (2005) argue theoretically that managers and employees will tend to collude against takeover threats when managerial ownership is low. Bertrand and Mullainathan (2003) find that anti-takeover laws (which weaken shareholder rights) lead to higher wages, especially among white-collar workers. The anti-takeover laws are in turn associated with fewer plant closures and fewer new plants, while overall productivity and profitability decline. Atanassov and Kim (2009) find that strong union laws, when combined with weak investor protection, prevent large-scale layoffs, but lead to asset sales and deteriorating company performance. Cronqvist *et al.* (2009) find that managerial entrenchment is associated with higher workers' pay, especially to employees closer to them in the corporate hierarchy. However, these effects are mitigated by managerial ownership and stronger corporate governance. Liskovich (2016) finds that stronger corporate governance (declassification of boards) reduces employee earnings by changing workforce composition towards low-wage jobs. Popadak (2013) examines the effects of stronger shareholder governance on corporate culture. She finds that stronger governance leads to greater results-orientation but less customer-focus, integrity, and collaboration. In the short run shareholders gain from increases in sales profitability and dividends, but in the long run intangible assets associated with customer satisfaction and employee integrity deteriorate, which partly reverses the gains.

Altogether there seem to be two main mechanisms by which corporate ownership structure can influence labour.

According to what we will name the 'trade off model', higher shareholder pressure—particularly the threat of hostile takeover—may increase profitability and share prices by layoffs, wage cuts, outsourcing, and failure to honour implicit contracts with employees. It follows that lower shareholder pressure—as in foundation ownership—could be associated with higher wages and greater job security at the expense of profitability. In this zero sum bargaining model employees benefit at the expense of shareholders and vice versa.

Alternatively, according to what we will name the 'cooperative model', following early work by Aoki (1984), investing in better labour relations under more patient ownership could pay off in terms of a better reputation, a more loyal work force, ability to attract more talented employees, and greater willingness by employees to invest in

firm-specific human capital. In the long run such investments would not necessarily be bad for shareholders and might even lead to higher profitability.

Research on foundation ownership has concentrated on the consequences for financial performance (Thomsen, 1996, 1999; Hermann and Franke, 2002; Thomsen and Rose, 2004; Dzansi, 2012; Hansmann and Thomsen, 2013; Børsting *et al.*, 2014; Kuhn and Thomsen, 2015; Draheim and Franke, 2015). In general this literature finds that foundation-owned firms achieve competitive financial returns, but only a few tentative working papers have started to examine other aspects of performance, such as employment and externalities. Kuhn and Thomsen (2014) find that employees in foundation-owned firms have longer tenure, better education, a higher share of females, and higher pay than non-foundation-owned firms. Kuhn *et al.*, (2015) find positive spill-over effects from large foundation-owned companies on to employment and productivity in other firms.

V. Data

We use two data sets in this paper.

1. Reputation ratings from the Danish survey firm IFO, which has collected image ratings for 140 Danish companies over the period 2002–11. These data allow us to examine how the reputations of foundation-owned companies differ from those of other firms.
2. Matched employer employee data from Statistics Denmark. These data allow us to validate the reputation differences by examining actual labour market practices of foundation-owned firms.

Reputation

The reputation ratings are published by the Danish business press and are equivalent to ratings produced by *Fortune* and other business periodicals on the most admired companies in specific countries. The ratings are generated by surveying business people who report knowing the company in question. The data are longitudinal, with firms entering and leaving the sample, but 18 foundation-owned and 69 other firms were present over the whole period. The companies are evaluated on overall reputation, including management quality, corporate responsibility, employee relations, product quality, innovation, financial strength, communication, and competiveness. The numbers are ranked from 1 and up as in tournaments, so that a score of 1 is better than a score of 2 and so on. An overview of the reputation data is given in Table 1 below.

Labour data

We are able to study the actual labour market characteristics of foundation-owned companies by using Danish register data that essentially cover the entire workforce. We identify which companies are foundation-owned and match them with labour registers on employment duration, wages, education levels, and so on. This matched employer–employee dataset makes it possible to analyse both firms and employees over time and to compute changes in individual earnings, education, and tenure.

Table 1: An overview of the reputation data

Variable	Definition
Overall image	The average score of the image components below.
Responsibility	The company takes responsibility for the environment, employees, and society.
Financial strength	The company is financially sound and well managed.
Innovation	The company is capable of product development and seeking new solutions.
Communication	Management is good at disseminating the vision and values of the company to the outside world.
Quality	The company's products and services are of high quality.
Management	Management is good at handling the challenges that the company faces.
Employees	The company's employees are competent and service minded.
Credibility	The company's employees and managers do what they say.
Competitiveness	The company is good at generating profits and growth in constant competition.

Source: The Danish business press.

We match data from two different sources: the Danish Business Authority and Statistics Denmark. First, we use the Danish Business Authority's register of 1,472 industrial foundations and identify the companies that are foundation-owned and their company registration (CVR) numbers. We then link the foundation-owned companies to individual-level information stored by Statistics Denmark using personal identification (CPR) numbers, including yearly registers on education, wage, and affiliation to workplaces and firms. We can also access additional firm financial information and firm characteristics using the CVR numbers. Matching the registers by the CVR number and the CPR number, we have a panel dataset of approximately 9 billion employer–employee observations over the time period 2000–12. The data are summarized in Table 2 below.

(i) Foundation ownership and corporate reputation

We start by a graphical presentation in Figure 1 of the relationship between foundation ownership and corporate reputation. We sort the 140 companies covered by the reputation rankings into foundation-owned and others by whether or not an industrial foundation has voting control (>50 per cent). We plot the average image rank (1–140) by ownership category and find that the foundation-owned companies have a better image (average rank around 40) than other non-foundation-owned firms (average rank around 80).

One gets the impression that the other firms experience a decline in image while the foundation-owned firms held on to their position. Theoretically ranked measures between two mutually exclusive groups should cancel out, but such movement is actually possible because we wanted a balanced panel and eliminated firms with missing data (i.e. entry and exit during the period). Closer scrutiny of the underlying numerical image scores reveals that both foundation-owned and the non-foundation-owned companies experience a decline in image ratings during the period but the decline was less severe among the foundation-owned companies.

The image advantage of the foundation-owned companies is large and statistically significant. A crude estimate based on the raw figures presented here would indicate that their image is twice as good as the image of the average company in the sample.

Table 2: Detailed descriptions of the construction of all variables used in the empirical analysis

Variable	Definition
Foundation-owned	Dummy variable equal to one if the company is foundation-owned. (*Source*: Danish Business Authority)
Tenure	Number of years employed.
Wage	Hourly wage (DKK).
Education (months)	Highest completed education measured in months.
Female	Dummy variable equal to one if worker gender is female.
Age	Employee age measured in years.
Net income	Net income after tax (1,000 DKK).
Number of employees	Number of employees.
Log(employees)	Log of number of employees.
EBIT	Earnings before interest, tax and amortization (1,000 DKK).
Total assets	Total assets (1,000 DKK).
Log(total assets)	Log of total assets.
Investments	Investments (1,000 DKK).
Equity	Equity (1,000 DKK).
Capital intensity	Total assets divided by revenue.
Revenue	Revenue (1,000 DKK).
Solvency	Equity divided by total assets.
ROA	Return on assets is calculated as net income before tax divided by total assets.
Tenure (years, lagged)	Calculated as lagged number of years employed.
Wage (DKK, lagged)	Calculated as lagged hourly wage (DKK).
Education (month, lagged)	Calculated as lagged highest completed education measured in months.
Firm size (log(employees), lagged)	Calculated as lagged log of number of employees.
Age (years, lagged)	Calculated as lagged employee age measured in years.
Solvency (fraction, lagged)	Calculated as lagged equity divided by total assets.
Foundation-owned x tenure (lagged)	Interaction variable calculated as foundation-owned dummy multiplied with Tenure (lagged).
Foundation-owned x wage (lagged)	Interaction variable calculated as foundation-owned dummy multiplied with wage (lagged).
Foundation-owned x education (lagged)	Interaction variable calculated as foundation-owned dummy multiplied with education (lagged).
Separation rate	Percentage of employees which where not employed by the same firm 1 year ago.
Industry	Dummy variable for each industry using the Danish Industry Classification Code DB07: 10 industry categories.
Year	Dummy variable for each year from 2000 to 2012.

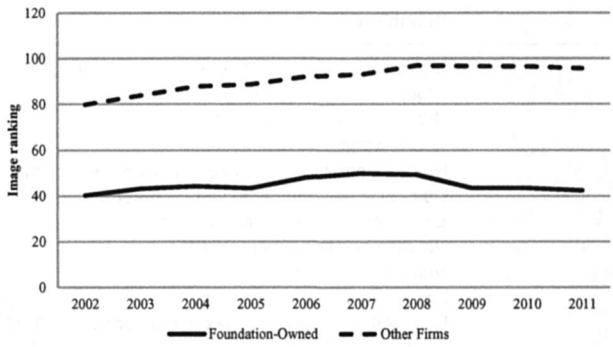
Sources: Unless specified otherwise, the source is Statistics Denmark.

If anything, the image advantage seems to be growing over time. In Table 3 we check the foundation effect on different image measures using regression analysis controlling for size and industry. Note that we invert the reputation scale by multiplying by –1 in the regressions so that a positive effect in the regressions indicates a better reputation.

We find that foundation ownership has a positive and significant estimated effect on corporate reputation in six of 10 measures, a positive but insignificant effects on three of 10, and a negative but insignificant effect on one of the 10 image measures (innovation). We do not find significant effects for other ownership categories such as institutional investors, foreign ownership, or family ownership (in regressions not reported here).

It is tempting to analyse the differential effects on alternative reputation measures, but factor analysis on the different image components (not reported here) indicated

Figure 1: Image rank of foundation-owned and other firms



that they are highly correlated and attributable to a single latent factor which we can think of as general corporate image. The tendency is that a company with a good reputation will be perceived as having good management, employment relations, product quality, and corporate responsibility. This may reflect perceptual bias or it may reflect that a well-functioning company has to do well or as least adequately in all of its various stakeholder relations.

In the rest of the paper we examine whether foundation-owned companies really do differ with regard to labour relations which we can measure more precisely using labour market statistics.

(ii) Labour market indicators

Table 4 provides summary statistics for dataset 2—the matched employer–employee data. Although we limit our sample to joint stock companies, there are up to 11.2m observations (employee years) over the period 2000–12. We analyse companies with at least one employee and with non-missing total assets and delete companies with negative revenue. Of these a little more than 1.8m are employees of foundation-owned firms, while 9m+ are in other companies. For some variables—especially some wage variables—there are fewer observations, but still around 6.7m.

In Table 5, we analyse differences between foundation-owned companies and others. We observe that the average employee in the data has been employed for 5.5 years, has an hourly wage of about 216 DKK (about £25), has 151 months of education (equivalent to high school level), has a 34 per cent chance of being female, and is around 38 years old. The average employee works in a company with after-tax profits of 467m DKK (£53m), 1,562 employees, assets of 4.2 billion DKK (£490m), equity of 2.2m DKK (£254m), and sales of 4.0 billion DKK (£470m). Obviously, the average Danish firm is much smaller than that, but there are many more employees in the large firms, and in the table above we average over employees. In practice this approach is equivalent to using firm-level data weighted by firm size (employment).

In comparison, employees of foundation-owned firms have 0.37 years longer tenure, are paid 7 DKK more an hour, are educated for 4 months longer, and have 4 percentage point higher chance of being female. The average employee in a foundation-owned

Table 3: Regression results: impact of foundation ownership on different measures of reputation

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
	Overall image	Management	Communication	Employees	Quality	Innovation	Credibility	Responsibility	Financial strength	Competitiveness
Foundation-owned	11.64*	14.36**	9.733	12.72*	7.202	−2.383	12.60*	7.060	17.20***	13.33**
	(6.224)	(5.734)	(6.653)	(6.531)	(6.287)	(6.814)	(6.846)	(7.460)	(6.377)	(6.543)
Firm size	6.703***	5.712***	4.411**	5.603***	6.298***	5.193***	6.295***	7.121***	6.415***	5.642***
(log(employees))	(1.731)	(1.673)	(1.910)	(1.945)	(1.765)	(1.843)	(1.885)	(1.944)	(1.881)	(1.879)
Constant	−91.24***	−93.48***	−66.61***	−99.97***	−94.65***	−60.84***	−94.66***	−111.0***	−103.4***	−97.95***
	(14.62)	(11.37)	(13.59)	(13.03)	(14.10)	(12.18)	(16.91)	(20.33)	(26.31)	(15.66)
Observations	1,033	1,033	1,033	1,033	1,033	1,033	1,033	1,033	1,033	877
Industry dummies (8 industry dummies)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies (2000–11)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Robust Tobit with clustered standard errors in parantheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 4: Summary statistics, full sample

	All firms			
Variable	**No.**	**Mean**	**Minimum**	**Maximum**
Tenure (years employed)	9,967,014	5.49	1	33
Wage (hourly, DKK)	6,721,955	216	33	4,325
Education (months)	10,878,122	151	0	264
Female (fraction)	11,187,027	0.34	0	1.00
Age (years)	11,096,387	38.34	16.00	102.00
Net income (1,000 DKK)	11,187,027	466,891	–7,580,431	22,900,000
Number of employees	11,187,027	1,562	1	22,651
EBIT (1,000 DKK)	11,187,027	578,706	–8,075,712	29,200,000
Total assets (1,000 DKK)	11,187,027	4,239,694	0	154,000,000
Investments (1,000 DKK)	11,187,027	53,691	–55	7,374,589
Equity (1,000 DKK)	11,187,027	2,200,341	–1,987,285	75,200,000
Solvency (fraction)	11,185,506	0.3698	–0.6803	0.8876
Return on assets (fraction)	11,185,506	0.0449	–1.050	0.4715
Revenue (1,000 DKK)	11,187,027	4,074,165	1	92,300,000

company works in a company that is four times larger in terms of employment and ten times larger in terms of assets.

In Appendix Table A1 we report correlation coefficients which are generally highly significant. In Appendix Table A2 we report t-tests. Foundation ownership is positively and significantly associated with tenure, pay, education, and gender diversity.

In Table 6 we provide some regressions of the labour market variables on foundation ownership controlling for firm size, industry, year and other effects.

We find that the foundation effect is robust. Employees in foundation-owned companies have 0.6 years longer tenure, make 16 DKK (£1.9) more an hour, and have 6 months longer education—after controlling for gender, age, firm size, solvency, industry, and year effects. The differences are not large, but being in the order of a few percentage points they are large enough to be economically significant.

(iii) Matching

To further drive home the point, we used a (nearest neighbour) sample of matching firms based on firm size (employment) and industry and tested for labour differences using pairwise comparisons (t-tests with unequal variance) between foundation-owned and other firms in Table 7.

We again find longer tenure (+6.6 per cent or almost half a year), higher hourly wage (4.6 per cent), a higher level of education (4 per cent), and a slightly more diverse workforce (more women, younger average age). Note, however, that the matching was not fully successful with regard to size, so that foundation-owned firms are smaller than non-foundation-owned firms. We therefore still need to maintain control for size effect to ensure the robustness of our results.

We provide some controlled regressions using the matched sample in Table 8. Here we find that employees in foundation-owned companies have about 7 months (0.58 year) longer tenure, 14 DKK higher hourly wage (about 8 per cent above the control group), and 5.5 months (about 4 per cent) longer education.

Table 5: Summary statistics: foundation-owned firms and not foundation-owned firms

	Foundation-owned				Not foundation-owned			
Variable	**No.**	**Mean**	**Minimum**	**Maximum**	**No.**	**Mean**	**Minimum**	**Maximum**
Tenure (years employed)	1,688,993	5.80	1	33	8,278,021	5.43	1	33
Wage (hourly, DKK)	1,278,288	222	34	4,237	5,443,667	215	32.71415	4,325
Education (months)	1,803,480	154	0	252	9,074,642	150	0	264
Female (fraction)	1,854,129	0.37	0	1	9,332,898	0.33	0	1
Age (years)	1,836,890	37.84	16	102	9,259,497	38.44	16	102
Net income (1,000 DKK)	1,854,129	2,310,475	–6,946,406	21,400,000	9,332,898	100,634	–7,590,431	22,900,000
Number of employees	1,854,129	4,153	1	16,700	9,332,898	1,047	1	22,651
EBIT (1,000 DKK)	1,854,129	2,842,686	–5,882,642	29,200,000	9,332,898	128,930	–8,075,712	22,900,000
Total assets (1,000 DKK)	1,854,129	16,800,000	34	154,000,000	9,332,898	1,743,256	0	142,000,000
Investments (1,000 DKK)	1,854,129	267,027	0	7,374,589	9,332,898	11,308	–55	2,692,000
Equity (1,000 DKK)	1,854,129	9,659,827	–171,248	75,200,000	9,332,898	718,395	–1,987,285	53,400,000
Solvency (fraction)	1,854,129	.4878	–0.6803	0.8876	9,331,377	0.3463	–0.6803	0.8876
Return on assets (fraction)	1,854,129	0.0758	–1.0465	0.4715	9,331,377	0.0388	–1.0465	0.4715
Revenue (1,000 DKK)	1,854,129	13,900,000	1	92,300,000	9,332,898	2,123,205	1	38,700,000

Table 6: Regression results: impact of foundation ownership on tenure, wage, and education

	Model (1)	Model (2)	Model (3)
Variables	**Tenure**	**Wage**	**Education**
Foundation-owned	0.641**	16.01*	6.007**
	(0.289)	(8.428)	(2.354)
Firm size (log(employees))	–0.142***	0.306	–0.618*
	(0.0483)	(1.585)	(0.320)
Female (fraction)	–0.168***	–40.61***	–4.576***
	(0.0520)	(1.961)	(0.476)
Age (years)	0.193***	2.278***	0.200***
	(0.00441)	(0.128)	(0.0385)
Solvency (fraction)	0.000127**	–0.00839	–0.000618***
	(5.06e–05)	(0.00809)	(0.000220)
Constant	–4.491***	283.3***	179.3***
	(0.335)	(7.621)	(2.179)
Observations	9,894,790	6,677,901	10,876,624
R-squared	0.192	0.201	0.097
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes

Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 7: T-test, matched sample

	Number of observations		Means		
Variables	**Foundation-owned**	**Not foundation-owned**	**Foundation-owned**	**Not foundation-owned**	**T-test**
Tenure (years employed)	1,593,318	1,552,675	5.88	5.55	***
Wage (hourly wage, DKK)	1,220,662	1,220,662	217	207	***
Education (months)	1,705,395	1,706,419	153	147	***
Firm size (number employees)	1,753,524	1,753,524	3,770	4,713	***
Age (years)	1,737,332	1,741,447	37.66	38.58	***
Solvency (fraction)	1,753,524	1,753,488	0.48	0.37	***
Female (fraction)	1,753,524	1,753,524	0.36	0.34	***

Notes: Two-sample t-test with unequal variances. *** p<0.01, ** p<0.05, * p<0.1.

It is reassuring that the results are robust to firm size (log employment, the matching variable) which has an insignificant effect on the labour variables in the matched sample. Moreover, it is noticeable that the labour effects are individually significant even when controlling for other characteristics.

(iv) Trade off vs cooperation

An important issue that is as yet unexplored in this paper is whether the labour market practices of foundation-owned companies should be regarded as inefficient in the sense that they detract from financial performance or lead to lower productivity. This would imply a redistribution of wealth and income compared to standard firms which are believed to put greater emphasis on shareholder value. To the extent that foundation

Table 8: Regression results: impact of foundation-ownership on tenure, wage, and education, matched sample

	Model 1	Model 2	Model 3
Variables	**Tenure**	**Wage**	**Education**
Foundation-owned	0.694**	13.52*	5.467***
	(0.300)	(6.899)	(2.105)
Firm size (log(employees))	−0.116	−0.440	−0.328
	(0.0826)	(1.670)	(0.490)
Female (fraction)	−0.0178	−37.57***	−5.712***
	(0.105)	(3.625)	(1.033)
Age (years)	0.213***	2.123***	0.179**
	(0.00985)	(0.221)	(0.0910)
Solvency (fraction)	0.00574	0.109	−0.0162
	(0.00492)	(2.732)	(0.0270)
Constant	−5.765*	195.5	157.0
	(3.354)		
Observations	3,123,502	2,406,482	3,411,778
R-squared	0.216	0.233	0.111
Industry dummies	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes

Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

ownership is associated with lower productivity, this could be regarded as socially inefficient, i.e. a sign of agency problems and excess expenditure.

However, it is also possible that foundation-owned companies benefit from better labour relations, for example in greater alignment and motivation of the workforce, lower labour turnover costs which translate into higher profitability, productivity, etc. This would be a more interesting result since it would indicate that foundation ownership can support a financially and economically sustainable alternative to standard corporations.

While this paper is not about financial performance, we refer to our descriptive statistics (Table 5) which shows that foundation-owned companies do substantially better (7.6 per cent) than non-foundation-owned firms (3.9 per cent) in terms of accounting profitability (return on assets (ROA)). In other words, it is far from obvious from these findings that the foundation-owned companies sacrifice efficiency and profitability by their soft labour market practices. It is worth mentioning that this result does not hold for (unweighted) ROA, which for foundation-owneds tends to be at the same level or below the levels for other companies. However, since most employment takes place in the large firms it is a good characterization of the economy and the labour force as a whole.

In Table 9 we take this analysis one step further by examining whether there is any evidence of a trade off between profitability and the labour market characteristics that we have examined in the previous section. We also check for differences between foundation-owned and other firms by including an interaction effect between the labour variables and foundation ownership in a regression on ROA.

We find a small, but significantly positive main effect of higher wages which may reflect that hiring better-qualified employees and paying them better tends to be a worthwhile investment. An alternative perhaps more plausible hypothesis is that bonus schemes and bargaining imply positive reverse causality from profitability to labour

Table 9: Regression results: impact of foundation ownership and labour market variables on return on assets (ROA)

	Model 1 (Fixed effects)
Variables	**ROA**
Foundation-owned x tenure (lagged)	2.00169e-05
	(1.88782e-04)
Foundation-owned x wage (lagged)	–1.71942e-05*
	(9.01314e-06)
Foundation-owned x education (lagged)	–1.24358e-05
	(8.15713e-05)
Tenure (years, lagged)	–8.37133e-05
	(5.21509e-05)
Wage (DKK, lagged)	1.05544e-05***
	(3.54172e-06)
Education (month, lagged)	–1.15109e-05
	(1.30684e-05)
Female (fraction)	1.51189e-03*
	(7.91724e-04)
Female x foundation-owned	–2.24919e-03
	(2.67121e-03)
Firm size (log(employees), lagged)	–3.06482e-04
	(3.57136e-03)
Age (years)	6.87033e-06
	(2.52424e-05)
Solvency (fraction)	3.53392e-02***
	(7.92464e-03)
Constant	1.14138e-01***
	(4.14515e-02)
Observations	78,070
Number of firms	17,365
R-squared	0.046
Year dummies	Yes

Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

costs. There are no significant main effects of tenure and education. In other words, better labour relations appear not to be associated with lower profitability. The findings appear to be more consistent with what we call the cooperative model: investments in good labour relations break even so that they do not redistribute shareholder wealth.

However, we find evidence of a negative interaction effect between wages and foundation ownership, indicating that the higher wages paid by foundation-owned companies tend to have a small negative effect on their profitability even taking into account the positive main effect. In this case, there appears to be a trade off so that higher wages are paid for by lower profits to the shareholders.

We find no negative effects of tenure and education. There are good theoretical reasons why friendly labour relations may be optimal even from a shareholder perspective as long as they do not block necessary structural adjustments. There are significant costs of labour turnover, which can be reduced if employees stay longer. A better-educated workforce may be more productive, and it may be particularly profitable for firms in countries such as Denmark with very equal distributions of income so that

wages rise slowly with education levels. Friendly policies to employees seem likely to lead to good employer reputations that will make it easier to attract talented employees. Edmans (2011) found that high employee satisfaction increases shareholder value. Popadak (2013) argues that more patient labour policies promote a stronger corporate culture, customer focus, integrity, and collaboration.

Theoretically, rent sharing with employees might also come at the expense of customers if companies with monopolistic advantages can raise prices to cover the increased labour costs. However, there is no evidence that this is the case for foundation-owned companies. On the contrary the image ratings analysed in Figure 1 and Table 3 indicate that foundation-owned firms have better reputations, higher or equal product quality, and more service-minded employees. Moreover, since Denmark is a small country almost all Danish firms do most of their business outside of the country and very few possess monopolistic advantages which allow them to raise prices internationally. Previous research (Thomsen, 1999) has established that foundation-owned firms are more international than other Danish firms.

(v) Performance during the financial crisis

In Table 10 we use the financial crisis as an exogenous shock to establish whether foundation-owned firms reacted differently to the financial crisis using a difference-in-differences (dif-in-dif) approach.

Table 10: T-test: matched sample, post and pre-crises

Variable	**Means**			
Tenure	**Foundation-owned**	**Not foundation-owned**	**Difference**	**T-test**
Pre-crises	5.88	5.53	0.35	***
Post-crises	5.87	5.59	0.28	***
Difference	–0.01	0.06	–0.07	—
T-test	—	***		
Variable	**Means**			
Education	**Foundation-owned**	**Not foundation-owned**	**Difference**	**T-test**
Pre-crises	149.11	143.66	5.45	***
Post-crises	157.99	152.69	5.30	***
Difference	8.88	9.03	–0.15	—
T-test	***	***		
Variable	**Means**			
Wage	**Foundation-owned**	**Not foundation-owned**	**Difference**	**T-test**
Pre-crises	191.26	180.83	10.43	***
Post-crises	253.45	242.78	10.67	***
Difference	62.19	61.95	0.24	—
T-test	***	***		

Notes: Two-sample t-test with unequal variances. *** p<0.01, ** p<0.05, * p<0.1.

Contrary to expectations, we find that the differences between foundation-owned and other companies are relatively unchanged after the crisis. For example, the foundation-owned companies' tenure premium drops slightly from 0.35 to 0.28—a dif-in-dif effect of –0.07, which is not significant. The education premium also drops slightly from 5.4 to 5.3, a dif-in-dif effect of –0,1 which is again not significant. Finally the wage premium increases slightly from 10.43 to 10.67, a dif-in-dif effect of +0,24, which is not significant either.

Altogether, the dif-in-dif analysis indicates that the foundation effect is pretty similar in and out of equilibrium.

In Tables 11 and 12 we examine another indicator—separation rates—defined as the percentage of employees which were not employed by the same firm 1 year ago.

We find as expected (Table 11) that foundation-owned companies have significantly lower separation rates. To our surprise, separation rates drop following the financial crisis, but they drop more among the foundation-owned companies. The difference between foundation-owned and non-foundation-owned companies remains significant, and the differential does not change significantly. In 11 of 12 observation years separation rates are significantly lower among the foundation-owned firms (Table 12).

Table 11: T-test: post and pre-crises, separation rates, full sample

Variable	Means			
Separation rate	**Foundation-owned**	**Not foundation-owned**	**Difference**	**T-test**
Pre-crises	0.1098	0.1283	–0.0186	***
Post-crises	0.0851	0.1199	–0.0348	***
Difference	–0.0247	–0.0085	–0.0162	—
T-test	***	***		

Notes: Two-sample t-test with unequal variances. *** p<0.01, ** p<0.05, * p<0.1.

Table 12: T-test: separation rates, yearly, full sample

Variable	Means			
Separation rate	**Foundation-owned**	**Not foundation-owned**	**Difference**	**T-test**
2001	0.1045	0.1458	0.0413	***
2002	0.0876	0.1136	0.0260	***
2003	0.0800	0.1071	0.0271	***
2004	0.0747	0.1104	0.0357	***
2005	0.2135	0.1180	–0.0955	***
2006	0.0989	0.1385	0.0396	***
2007	0.1055	0.1593	0.0537	***
2008	0.1153	0.1491	0.0338	***
2009	0.0692	0.1045	0.0352	***
2010	0.0746	0.1152	0.0407	***
2011	0.0821	0.1207	0.0386	***
2012	0.0847	0.1108	0.0261	***

Notes: Two-sample t-test with unequal variances. *** p<0.01, ** p<0.05, * p<0.1.

VI. Discussion

In this paper we have shown that foundation-owned companies have better reputations and better labour relations than other companies. We have also shown that this is not just a matter of size or industry effects etc. This is consistent with the idea that foundation ownership may be a way to commit to long-term labour relations.

What we have not shown is that foundation ownership *per se* causes these differences. There is doubtlessly some selection going on so that—for example—founders of relatively successful and socially responsible firms are (and were in the past) more likely to establish industrial foundations. If so, this could indicate that foundation-ownership was perceived as a suitable format to sustain such firms. Moreover, as mentioned in the introduction, most industrial foundations were established decades ago, so it is questionable how much such initial effects determine present day conditions.

Altogether our findings indicate that foundation-owned companies are more labour friendly. We find some indications that higher wages come at the expense of lower profitability, but there is no evidence of a trade off for education and job tenure. The differences appear to be robust over time, and we find no significant differences before or after the financial crisis.

It is perhaps worth thinking about the implications of these findings for firms in general, who might be able to achieve the same win–win relationship with their workforce. The tantalizing implication is that both shareholders and employees could benefit in the long run if companies were able to withstand the temptation to maximize short-run profits for just a little longer.

One way to do this would be to encourage greater diversity of ownership structure. For example, family businesses that are not subject to the market for corporate control may find it easier to commit to maintaining a stable workforce. Partnerships and mutuals might also find it easier to cultivate cooperative labour relations

Listed companies could also benefit by committing to secondary mechanisms that facilitate long-term exchange. For example, a good employer reputation may be one way for investor-owned firms to attract loyal employees which identify with the company's mission.

None of this is to say that market forces should be ignored, however. It would be wrong to regard foundation-owned firms as employment agencies. They are first and foremost business companies. As we conclude this paper, one of the largest Danish foundation-owned companies—Novo Nordisk—has just announced layoffs of 1,000 people following increasing price competition in the US market, and another giant—Maersk—is in the middle of a major break-up of its oil and shipping divisions. These companies remain market-driven, although they may be slightly softer at the edges than the standard shareholder firm.

Appendix

Table A1: Correlation matrix

	Foundation-owned	Education (months)	Wage (hourly, DKK)	Tenure (years employed)	Age (years)	Female (fraction)	Number of employees	Assets (1,000 DKK)	Net income (1.000 DKK)	Revenue (1,000 DKK)	Capital intensity (fraction)	ROA (fraction)	Solvency (fraction)
Foundation-owned	1												
Education (months)	0.0439 (0.000)	1											
Wage (hourly, DKK)	0.0257 (0.000)	0.416 (0.000)	1										
Tenure (years employed)	0.0233 (0.000)	0.0069 (0.000)	0.1138 (0.000)	1									
Age (years)	0.0174 (0.000)	0.1082 (0.000)	0.264 (0.000)	0.4156 (0.000)	1								
Female (fraction)	0.0344 (0.000)	–0.0688 (0.000)	–0.1675 (0.000)	–0.0526 (0.000)	–0.0863 (0.000)	1							
Number of employees	0.3207 (0.000)	–0.0685 (0.000)	–0.0681 (0.000)	–0.0610 (0.000)	–0.1228 (0.000)	0.1013 (0.000)	1						
Assets (1,000 DKK)	0.3615 (0.000)	0.0726 (0.000)	0.0874 (0.000)	–0.0445 (0.000)	–0.0180 (0.000)	0.0326 (0.000)	0.4857 (0.000)	1					
Net income (1,000 DKK)	0.2996 (0.000)	0.0923 (0.000)	0.0977 (0.000)	0.0293 (0.000)	0.0114 (0.000)	0.0395 (0.000)	0.3739 (0.000)	0.8022 (0.000)	1				
Revenue (1,000 DKK)	0.3832 (0.000)	–0.0003 (0.000)	0.0139 (0.000)	–0.0637 (0.000)	–0.1024 (0.000)	0.0632 (0.000)	0.7245 (0.000)	0.8512 (0.000)	0.7149 (0.000)	1			
Capital intensity (fraction)	0.0070 (0.000)	0.0046 (0.000)	0.0046 (0.000)	0.0002 (0.000)	0.0003 (0.000)	0.0008 0.0374	–0.0014 (0.000)	0.0004 0.2112	0.0006 0.0646	–0.0012 0.0005	1		
Return on assets (fraction)	0,0743 (0.000)	0,0405 (0.000)	0,0131 (0.000)	–0,0067 (0.000)	–0,0081 (0.000)	0,0216 (0.000)	0,0550 (0.000)	0,1359 (0.000)	0,2307 (0.000)	0,1200 (0.000)	0,0019 (0.000)	1 (0.000)	
Solvency (fraction)	0.2148 (0.000)	–0.0017 (0.000)	–0.0009 (0.000)	0.0513 (0.000)	–0.0060 (0.000)	0.0501 (0.000)	0.2511 (0.000)	0.1663 (0.000)	0.1396 0.0001	0.1870 (0.000)	0.0039 0.9336	0,0256 (0.000)	1 (0.000)

Notes: Numbers in parentheses are the significance level of each correlation coefficient.

Table A2: T-test: foundation-owned firms and not foundation-owned firms

	Number of observations		Means		
Variables	**Not foundation-owned**	**Foundation-owned**	**Not foundation-owned**	**Foundation-owned**	**T-test**
Tenure (years employed)	8,278,021	1,688,993	5.43	5.80	***
Wage (hourly wage, DKK)	5,443,667	1,278,288	215	222	***
Education (months)	9,074,642	1,803,480	150	154	***
Log assets	9,331,377	1,854,129	11.63	14.60	***
Number of employees	9,332,898	1,854,129	1,047	4,153	***
Female (fraction)	9,332,898	1,854,129	0.33	0.37	***
Age (years)	9,259,497	1,836,890	38.44	37.84	***
Return on assets (fraction)	9,331,377	1,854,129	0.0388	0.0758	***
Solvency (fraction)	9,331,377	1,854,129	0.346	0.488	***

Notes: *** p<0.01, ** p<0.05, * p<0.1.

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