Nordic Corporate Governance and Industrial Foundations[1][2][3]

Steen Thomsen[4]
Center for Corporate Governance
Copenhagen Business School

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Abstract

The Nordic countries have attracted considerable attention in recent years as a benchmark for good governance. However, while the political governance characteristics of the Nordic model – particularly the welfare state - are well understood, its corporate governance characteristics remain elusive to the international audience. This paper therefore reviews the Nordic corporate governance model with special emphasis on a unique ownership structure, industrial foundations (foundations that own business companies). Rather than a meticulous description of details it emphasizes the Nordic model as a mode of capitalism which other countries may learn from.

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[3] This paper builds on work done in the Research Project on Industrial Foundations. See www.tifp.dk
[4] Professor, Ph.D., Department of International Economics and Management Copenhagen Business School,

Introduction

For better or worse, the Nordic governance model has become the object of international attention and admiration. For example, Francis Fukuyama (2011) describes the goal of nation building as "getting to Denmark". The UN Global Happiness Index (2013) scores Denmark as no. 1 – the happiest country in the world. Oxford-Professor Colin Mayer (2012) describes the Anglo-American corporation as deeply flawed and looks to the Nordic model as an alternative. The Economist (2013) talks about the *"Nordic Supermodel"*. Even Thomas Piketty (2014) argues in favor of Nordic style income redistribution.

Some parts of the Nordic model are reasonably well described. It is well understood that the Nordic countries are welfare states characterized by large government sectors, income redistribution and high taxes (Andersen et. al 2012). While the welfare states of the 1960s and 1970s have gone out of fashion, the enthusiasm is now directed at the reformed lean welfare states that have emerged through market discipline, tax reform and restructured government services.

However, the Nordic Corporate Governance model remains less known, at least outside the Nordic countries. Clearly, the business sector must be part of the package, since – for example - the welfare state needs to be financed. Business companies constitute the growth engine of the Nordic model without which it would collapse. Moreover, the governance of Nordic companies has emerged in conjunction with the welfare state and has obviously been influenced by high taxation, income equality, social security and welfare. In this paper we examine the corporate governance model that has emerged and thrived under these circumstances. We pay special attention to a unique ownership structure, industrial foundations (foundations that own companies), which has become the dominant ownership mode in Denmark. Our goal objective is not to provide a detailed institutional description, which can be found elsewhere (e.g. Conyon and Thomsen 2012), but rather to assess the strengths and weaknesses of the model from the viewpoint of other countries such as China or India that debate what governance models to adopt in the future.

Even at this early stage, however, a disclaimed is warranted. Fashion waves come and go in political and economic discourse. The fact that the Nordic model is currently popular may have more to do with the perceived failures of dominant models during the 2008-2013 financial crisis than any enduring support for the Nordic way. In particular, the breakdown of the Washington consensus (Williams 1990) as a recipe for economic development has stimulated a reassessment of the role of government in China and other emerging economies (cf. the discussion of a "Beijing consensus"). Moreover, the absence of a universally superior governance model is a recurrent theme in international corporate governance research (e.g. Thomsen and Conyon 2012). This will obviously also be true of the Nordic or Danish model. What works (or at least appears to work) in the small homogeneous economies of Northern Europe may not be feasible or even desirable in other parts of the world . That said, as Fukuyama observes, those who know only one country knows no country. This paper is written on the assumption that there may be valuable lessons learned from comparative governance research and that the Nordic experience constitutes part of the evidence.

The Nordic corporate governance model

It is a commonplace observation in international corporate governance that there is more than one way to govern firms. Classic distinctions are between market economies dominated by private enterprise and centrally planned economies dominated by state ownership. Even within the market economies there are many nuances such as the important distinction between the (stock) market based economies of the US/UK characterized by dispersed investor ownership and the blockholder models found in most of the rest of the world, where blockholders can be alternatively individual entrepreneurs, founding families, banks, governments or other companies. In addition to ownership, it is known that legal systems and company laws differ with implications for board structure and executive incentives, while tradition and culture create different expectations of what companies are and what they should accomplish. The classic distinction in this regard is between stakeholder based or shareholder based models.

While countries are always characterized by a multitude of ownership and board structure, they can with some justification be classified according to dominant characteristics such as state ownership (China), market systems (US/UK), bank systems (Germany, until recently), cross ownership (Japan). Moreover, they can be characterized by board structure (one tier as in the US/UK or two tiers as in Germany) as well as dominant objectives (shareholder versus stakeholder goals). It is generally taken for granted that national governance models must display some level of internal consistency to be economically feasible. For example, shareholder value maximization is believed to be the most meaningful goal for companies with dispersed investor ownership, and it is no coincidence that incentive packages for managers must under these circumstances be aligned with share price appreciation. However, individual governance characteristics may also be loosely coupled so that (for example) stakeholder and shareholder system characteristics may coexist in the same system, cf that increasing attention to stakeholders has been formally incorporate in UK company law.

We examine the Nordic governance model which can be classified according to 5 different criteria: social governance, legal system, ownership structure, board structure and executive incentives (i.e. the "mechanisms approached suggest by Thomsen and Conyon (2012)).

Social governance. In table 1 below we document the scores of the Nordic countries on the World Bank governance indicators, which include the following variables (World Bank, 2012, Thomsen and Conyon 2012).
Voice and Accountability: "The extent to which citizens in a country are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media".

Political Stability and Absence of Violence/Terrorism: " The perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism".
Government Effectiveness: "The quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies".
Regulatory Quality: "The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development".
Rule of Law: "The extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence".
Control of Corruption: "The extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests".

Table 1. Governance indicators in the Nordic countries

	Nordics average rank	Other countries average rank	F-test	T-test	T-test controlling for GDP per capita
Rule of law	3.6	106.1	837.31***	29.84***	2.79***
Government effectiveness	4.6	104.0	658.04***	25.65***	1.94*
Regulatory quality	11.4	103.8	250.61***	15.83***	0.81 ns
Control of corruption	4.0	104.2	662.89***	25.75***	2.67***
Voice and Accountability	4.3	106.1	583.07**	24.15***	3.52***
Political Stability	14.3	104.3	219.96***	14.83***	2.13**
Overall Governance	3.9	106.6	682.54***	26.13***	2.75***

Source. World Bank Governance Indicators 2014.
Note. The governance indicators are continuous variables used for F- and T-tests. However for simplicity level differences are show by governance ranking from highest (1) to lowest (215) of maximum 215 countries. Overall Governance is a composite measure created by principal component analysis.

The high rank of the Nordic countries is notable. They are close to the highest possible average rank of 2.5 ((1+2+3+4)/4) in many of the governance indicators and way above world averages. Statistical t- and F-tests reveal that the Nordic countries have much better than average corporate governance in all governance dimensions, and for most indicators the difference remain significant after controlling for GDP per capita. In other words the Nordic countries have outstanding governance even taking into account their high levels of economic development. [5]

[5] Since governance is believed to have a positive effect on economic growth and GDP per capita, good governance is one reason for high living standards in the Nordic countries, and controlling for GDP per capita may understate Nordic distinctiveness in this areas.

The legal system. Here civil law is compared to the US/UK common law tradition. It is often claimed – e.g. by La Porta, Silanes Shleifer and Vishny (1998) that there is a separate Scandinavian or Nordic branch of civil law - but it is not clear what the special Scandinavian elements are. It is noticeable however that company law in the 4 Nordic countries is very similar and deliberately also since Nordic harmonization was historically considered to be attractive (Hansen 2003, 2007). Moreover, with top down state law rather than case law Nordic company law is no doubt closer to German civil law than to US/UK common law.

Ownership structures in the Nordics vary across countries from bank-based business groups in Sweden to state-owned enterprises in Norway (energy sector), dispersed ownership in Finland (following privatization of state-owned enterprises) and foundation-ownership in Denmark (the latter to be described in the following section of the paper). Outside the publicly listed companies we find a range of cooperatives, mutual and small or medium sized family business. This pluralism has given rise to some doubt about the concept of a Nordic governance model, but there is little doubt that Nordic governance is blockholder rather than market based. Moreover, shareholders have more decision power than in the US/UK and can for example replace the board by simple majority vote at the AGM (Hansen 2007). However, because of social pressures and/or legal protection of minority investors and stakeholders, large owners appear to be quite well behaved and derive fewer private benefits than in the US or UK (Coffee 2001). It is noticeable that the Nordic countries rank high in terms of enforcement of such protection.

Board structures are quite similar at least in the Scandinavian countries (Denmark, Norway, Sweden) as a consequence of similarity of company law (Hansen 2003). There is a distinction between the (supervisory) board and executive management as in Germany, but unlike Germany some limited overlap is allowed between the two levels. Moreover, the board is not (as German supervisory boards) limited to supervision but can (as US/UK boards) interfere with whatever it finds appropriate except running the company on a daily basis. For example, unlike the board of statutory auditors in Japan or China or the German supervisory boards, Nordic company boards can easily replace executive managers. The Nordic board structure is therefore usually characterized as semi two-tier (Conyon and Thomsen 2012), i.e. there are two tiers, but there is more overlap between the two tiers than in Germany. Note however that Hansen (2007) regards the Nordic board model as essentially one tier, which it historically was.

Like Germany, the 3 Scandinavian countries also have **employee representation** on company boards, but in an attenuated forms with up to 1/3 employees and not up to ½ as in Germany. Moreover, unlike in Germany, employee representation is not mandatory but optional to the employees, who often decide not to exercise their rights in small and medium size companies (Thomsen and Conyon, 2012). Thus Nordic governance is influenced by the stakeholder viewpoint, but not as clearly as in Germany, where employees must elect up to half of the supervisory board in large companies.

Executive incentives are generally less strong than in the US/UK with lower and less variable pay. Differences to the rest of continental Europe are debated but Nordic executive pay is probably the low end. One reason (as suggested by Piketty 2014) is that marginal taxes were (and still are) quite high and so that most upward variation in pay is taxed away and companies (or managers) have less of an incentive to set up variable pay systems such as stock option schemes. Nevertheless stock options schemes are now quite common and executive pay is rising at the same rates (10%) as in the US/UK.

Altogether, the Nordic model has elements of stakeholder governance, which is however balanced by strong ownership. Ownership structure is concentrated and shareholders are empowered to make decisions. There appears to be less formality and more decentralized decision making than in Germany or the US. However, in many cases major blockholders are more sensitive to stakeholder concerns, for example because they have ties to unions (pension funds), government (the Norwegian energy companies) or (as well shall see in the next section) charitable foundations.

The Nordic corporate governance model has obviously developed in conjunction with other elements of Nordic societies. For example, the welfare state and its high tax rates (including historically high wealth taxes) made family business difficult to sustain. Relatively efficient and uncorrupted government has made it less costly to socialize large sector of the economy such as health and education. Mark Roe (2000) speculates that strong owners were necessary to counteract powerful labor unions and thus an essential element of the overall governance system. Coffee (2001) observes that private benefits are lower in the Nordic countries. He argues the small Nordic countries have been able to discipline large owners through social norms, which may be more difficult to do in large heterogeneous countries such as the US or a large stock markets with many international stocks such as the UK. It is interesting that investor protection during the British industrial revolution was apparently provided informally through social norms (e.g. gentlemen's agreements within the 'old boys' networks') in specialized share markets such as the textile exchange in Manchester (Franks, Mayer, and Rossi 2004).

Performance. Since 1980 long run economic growth in the Nordics has been at the same level as in other high income OECD countries - slightly higher than EU average, but slightly the below the US (cf Table 2 below).

Table 2. GDP per capita (% growth)

	Average 1980-2013
Nordics	1.7
Euro area	1.5
United States	1.8
China	8.7
India	3.9
Singapore	4.5
World	1.4

Source: World Bank Tables 2014

Obviously, compared to the performance of China, India or Singapore, Nordic growth rates are low, and many would like them to be higher, but they appear to be no lower than in other developed countries. The same trends are observed in stock market indices, which have grown faster in the Nordics than in the rest of continental Europe, but slower than in the US.

Industrial foundations[6]

We end this exposition of the Nordic governance model by an in-depth treatment of industrial foundations - a particular ownership structure that is common in Denmark and Sweden, relatively uncommon in Norway and virtually non-existent in Finland.

Industrial foundations are foundations that own business companies[7], i.e. own voting majority of the stock of a corporation (Thomsen 1996). The foundations are independent legal persons without owners or members. Functionally, they are similar to US foundations except that they hold a voting majority of a business company. Like US foundations typically have charitable goals and donate substantial amounts to charity, particularly to research (Rao and Thomsen 2012).

The foundation is governed by a board under a charter and supervised by a government agency (the foundation authority), which supervises whether the decisions made by the board are legal and in accordance with the charter. However the foundation authority does not intervene in business decisions. Members of the founding family may or may not sit on the foundation board (they do so in half of the largest industrial foundations,

[6] For an explanation of the institutional structure and relevant theories see Thomsen (2012): What do We Know about Industrial Foundations?

[7] An industrial foundation may also do business in its own name, it may own controlling minority share of a company or it may own a share of a partnership. But for analytical clarity we focus on the case of majority ownership. The largest and economically most important industrial foundations invariably do business through ownership of a joint stock company.

Thomsen 1999). The charter is written by the founder, typically by an entrepreneur who wills his shares to a foundation established by herself.[8]

The foundation board makes all important decisions. It resembles a company board but as in non-industrial foundations, it is often self-elected so the new members are elected by the incumbents. The board may or may not choose to employ an executive manager, but it retains overall responsibility for the foundation. The non-profit status of industrial foundations implies that performance based pay is out of the question.

The company owned by the foundation is a normal business company subject to the same regulation as other business companies. Membership of the foundation board may or may not overlap with the company board, but some overlap is common. Hansmann and Thomsen (2013) find that a limited degree of overlap between foundation and company boards is associated with better company performance.

The Danish foundation-owned companies are found in a range of industries: shipping, pharmaceuticals, engineering, newspapers, property companies, banks and so on. In terms of numbers (number of companies) there is some overrepresentation in newspapers, property and engineering, but in terms of activity (share of output) they are overrepresented in shipping and pharmaceuticals.

Industrial foundations matter to the Danish economy. The companies that they own account for more than 60% of the stock market capitalization of Copenhagen stock exchange, and this share has been increasing over time. They account for roughly 5% of total domestic Danish employment, 8% of domestic private sector employment and 16% of international employment by Danish firms. They also account for the bulk of Danish R&D expenditure.

Industrial foundations are found in small numbers around the world. Examples include The Guardian (newspaper, UK), Hershey (chocolate, US), The Tata group (conglomerate, India), the Wallenberg sphere (conglomerate, Sweden), Borsch (engineering, Germany), Veritas (Insurance, Norway). However, nowhere are they as important as in Denmark.

Why foundation-ownership came to be so common in Denmark remains something of a puzzle. The most direct explanation is that they were used as mechanism to retain control of companies under the high tax pressure exerted by the welfare state. During the 1970s and 1980s Danish wealth taxes were particularly high which made it attractive for founding families to escape taxation by donating their stock to a foundation. Empirically, we observe that the formation of new industrial foundations peaked in this period. Since then in in the 1980s 1990s wealth taxes have been reduced and a substantial gift tax has been introduced for industrial foundations, so that is has become uncommon for private entrepreneurs to establish them.

[8] Another route to foundation ownership is through converted mutual banks and mortgage institutions. However in this paper we focus on industrial (non-financial) foundations.

However taxation is probably not all. The other Nordic countries have also had high tax rates (as had the US and UK historically, see Piketty 2014) without a correspondingly high formation of industrial foundations. Moreover, the largest and best known industrial foundations like the Carlsberg, Novo Nordisk or A. P. Møller foundations were established before taxation became severe during the 1970s and 1980s. So taxation is only part of the picture. However, it seems possible that foundation ownership was helpful in creating legitimacy for companies in the Nordic welfare states that value economic equality. The structure is also important in Sweden if the Wallenberg sphere is counted as foundation-owned.

It is also possible that a relatively unique historical event, the early establishment of the Carlsberg Foundation and its enduring success, triggered imitation since Carlsberg was historically by far the biggest industrial company in Denmark and became a role model for other Danish companies.

Long-term ownership. Given current discussions of the failings of shorttermism in finance and business, long-termism is one of the attractive characteristics of foundation ownership.

Industrial foundations are long term by design. Founders typically expect the foundation to carry on their role as owners in perpetuity. In many cases the foundation charter will bind the foundation to retain voting control. Legally, the foundation authority may intervene it perceive that the management of the foundation jeopardizes survival by excessive risk taking, failure to build reserves by retained earnings or excessive leverage. Foundation board members are personally accountable for excessively risky behavior that jeopardizes the survival of the foundation.

Foundations have no owners or investors with a claim to dividends. They are sheltered from stock market fluctuations because the foundation has absolute voting control. Most foundation-owned companies are not even listed.

Given their mandate it is no surprise that foundations also come to act as long term owners. Børsting et al. (2014a) find that industrial foundations hold their shares longer and that their shareholdings are more stable than those of comparable Danish companies (many of which are family business).

Longtermism also translates into management. Børsting et al (2014b) find that industrial foundations replace executives and directors less often and that director replacement is less sensitive to performance when controlling for size and other factors.

As concentrated owners, the foundations do not have diversified portfolios, which makes them rationally risk averse. That is they seek to stabilize earning and to have low debt levels. Hansmann and Thomsen (2014) find that foundation-owned companies do indeed have significant lower earnings volatility (standard deviation of ROA, return on assets) compared to Nordic listed companies after controlling for company size (assets) and industry. The foundation-owned companies also have lower debt-equity ratios controlling for size and industry.

Industrial foundations are also known to be particularly active in research intensive industries with long pay back periods (Thomsen 1996, 2012).

The net result is that foundation-owned companies survive longer than comparable companies (Poulsen et al 2014). To some extent this is not surprising, since the foundation structure is often chosen to carry on ownership of successful companies, but their survival advantage tends to endure over time.

Financial Performance. While industrial foundations are long term owners it is not clear that this advantage translates into better financial performance. In fact given tradeoff between risk and return we would expect lower risk to be associated with lower returns. Nevertheless the risk-return tradeoff implies that low risk is in itself an indicator of good performance in foundation-owned companies.

Studies of foundation ownership have found them to have similar economic performance as companies with investor ownership, family ownership or other ownership structures (Herrmann and Franke 2002, Thomsen 1996, 1999, Thomsen and Rose, 2004) using performance measures such as accounting profitability, growth, stock market value, or stock returns. However, recent studies by Hansmann and Thomsen (2014) and Børsting et al (2014c) point to underperformance among smaller foundation owned companies. Børsting et al (2014c) find that smaller foundation-owned companies have significantly lower ROA than similar closely held companies. However, large foundation-owned companies overperform their control group. Hansmann and Thomsen (2014) replicate previous findings that foundation-owned firms perform well compared to the population of listed Nordic companies. However, when matching with the nearest neighbor by industry and size they find that unlisted foundation-owned companies have lower ROA than matched listed companies from the Nordic area, while listed foundation-owned companies have higher ROA compared to their benchmarks.

Thus the evidence indicates that large foundation-owned companies do better than small. There may be several reasons for this. Hansmann and Thomsen (2013) hypothesize that listing creates managerial distance between foundation and company, and the greater distance allows the foundation to demand more of the company. Moreover listing is correlated with other governance changes such as board structure. Listing and size are highly correlated so the size effect could be a listing effect. Alternatively size is correlated with board distance (les overlap between foundation and company boards). Size may also be correlated with greater visibility that increases the social pressure on foundation board members.

Hansmann and Thomsen (2014) further find that foundation-owned companies do relatively better in research-intensive industries and if they are well consolidated (i.e. have lower debt/equity ratios).

What can we learn from the Nordic model?

The Nordic mode of capitalism shows that it is feasible –under some circumstances - to combine market economy and reasonable growth rates with a large government sector, income redistribution and democracy. Ideologically they rest on the concept of social democracy (Bernstein 1899), which revised the radical ideas proposed by communist and socialist philosophers such as Karl Marx. For example, the social democrats dropped the goal of class warfare and violent revolution in favor of a more pragmatic approach that eventually came to favor a mixed economy. These socialist origins conceivably make the Nordic experience interesting for countries with a socialist or communist heritage such as India or China that are themselves going through a transformation to a mixed economy. If social welfare, income equality and happiness are high on the priority list, the Nordic model appears attractive.

However, the Nordic countries are themselves facing challenges that may make their model unacceptable to developing countries. For example, as shown, growth rates have been meagre compared to the dynamism of Singapore and other nouveau riche emerging market economies. This has caused much soul searching and reform in the Nordic countries, which are themselves in a period of transition. As the Economist (2013) notes: *"The streets of Stockholm are awash with the blood of sacred cows"*. The reforms include public sector austerity, privatization, outsourcing, public-private partnerships, downsizing and adoption of market principles. It is not clear that the Nordic model is sustainable.

Moreover, to some extent the Nordic model builds on social capital (trust and cohesion) which is much easier to maintain in small, homogenous and wealthy economies than in large and heterogeneous emerging markets, where poverty remains a serious problem. Thus, it is not clear that the Nordic model can easily be imported if demanded by policy makers.

Nevertheless, for inspirational purposes we note some of its main characteristics and possible learning points.

Government focus on welfare. The Nordic model is very different from the State capitalism practiced in Singapore or China. Excepting the Norwegian energy sector Nordic governments are almost exclusively involved in non-market welfare services (health, social security, education), while the Singaporean and Chinese governments are active in a range of competitive business.

Employee representation on company boards is perhaps the best direct expression of social democracy on Nordic company boards with the Norwegian gender quota as a possible second. The 1/3 employees on Scandinavian boards is sufficiently far from majority control to make it clear that employee-elected board members primarily have a consultative role while their formal responsibilities (duty of loyalty and care to the company) are the same as those of normal shareholder-elected board members. Perhaps for this reason there has been little organized resistance against it among Nordic employers, while German employers have strongly criticized its brand of codetermination. The consensus view appears to be that Scandinavian employee representation is relatively harmless and perhaps even beneficial in exceptional circumstances such as crisis situations requiring large layoffs. Nevertheless, it is interesting the Finland effectively abolished its version.

Low and fixed managerial pay is consistent with income equality and attenuated profit incentives imposed by high marginal tax rates and income redistribution in the Nordic countries. As emphasized by Piketty(2014), high marginal tax rates also make it less attractive to introduce variable pay schemes, which are responsible for most of the increase in managerial compensation around the world. Thus Nordic pay structure have reinforced social democratic ideals without excessive damage to the competitiveness of Nordic companies. However, in recent decades the system has been changing, marginal tax rates have been lowered by tax reforms, while bonus and stock option schemes have increased variable pay.

Alternative ownership structures. Possibly in response to high taxation and social pressures a range of alternative ownership structure including cooperatives, financial and industrial foundations (see below) remain influential in the Nordics.

Industrial foundations. The survival and success of Nordic industrial foundations raises the issue of whether these structures should be permitted or even encouraged from the viewpoint of economic policy and nation building. At this point, a cautious answer could be that there is no justification for prohibition and that economic policy should aim for tax neutrality and institutional competition so that these entities can be allowed to arise and compete or be outcompeted according to their relative performance. For example, US authorities should probably change the tax rules that have blocked US industrial foundations since 1969 (Thomsen 2006). Foundation ownership might also be attractive in other contexts, for example it could be an alternative ownership structure for the stock held by the Chinese Academy of Sciences in Lenovo in much the same way that the Danish academy of Sciences elects the board of the Carlsberg Foundation which owns a controlling share of Carlsberg, the brewery. In fact, industrial foundations may be attractive for Chinese policy makers since they constitute private ownership without private control by investors, entrepreneurs or founding families.

There appears to be 3 major routes to the creation of industrial foundations:

- 1. Donation by entrepreneurs (for example to overcome succession problems or avoid high wealth taxes),
- 2. Conversion of financial mutuals whose equity capital reserves are separated out to foundations before public listing.
- 3. Privatization to foundations where a government donates stock in a former state owned enterprise to charitable foundations.

All 3 are relevant to institution building in emerging economies including China. However, the success of foundation creation is likely to depend on context and process. The contrast between the Danish and the Italian experiences is instructive. The privatization of Italian banks appears to have led to inefficiencies as foundation and bank boards were staffed with politicians, while the Danish foundations established by entrepreneurs – and sometime partially governed by members of the founding family – appear to have been better able to retain the efficiency of founder-managers. The software (board composition) may be just as important as the hardware (ownership structure).

Another concern is that social capital such as basic levels of trust and honesty, control of corruption or government efficiency may be a requirement for the success of the foundation structure. Small, homogeneous and wealthy societies like the Nordic countries may find it easier to fulfill these requirements than large emerging economies that span a wider range of ethic and cultural diversity.

More generally, industrial foundations provide a clear example of long term ownership as in contrast to the deal and transactions oriented culture characterizing current stock markets (Kay 2012, Mayer 2013). There is evidence foundation ownership does in fact lead more long term decision making in companies. While it is not obvious that longtermism is always associated with better performance, such stability may plausibly be a comparative advantage in industries such as shipping or pharmaceuticals that require substantial long term investments over the business cycle. Even in the absence of industrial foundations, other ownership structure may be able to thrive though longtermism. In the literature it has been stressed that family business may be more farsighted (James 1999) because of a perceived need to preserve the company for future generations. It is also possible that other strong owners such as pension funds (Barton and Wiseman 2014) may help overcome the shorttermism in the public equity markets.

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