EVENT REPORT

ECMI-CEPS Lunch-time event

A Corporate governance model for Europe: Is diversity sustainable?

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Following the financial crisis we have seen a tidal wave of new EU-regulation addressing corporate governance, not only in the financial sector. More will also come in the area of company law for the "capital markets union". As a result, the new European Commission will have to face important questions on how to develop an ecosystem around corporate governance, which works for the single market.

Would a more harmonized regulatory eco-system affect the diversity of European corporate governance models? Are different national corporate governance regimes compatible with European integration? Can competition between governance models deliver integration and efficiency for the single market? How are main corporate governance models developing in European countries and worldwide, in the aftermath of the financial crisis? And could the Nordic corporate governance model be a model for Europe?

The seminar also the occasion to present a new book, written by a Nordic expert group, on the Nordic corporate governance model, which has created a unique environment for the development of some of the world leading companies.

Speakers:

- **Ronald Gilson**, Professor of Law and Business, Stanford Law School
- **Jacob Wallenberg**, Chairman of Investor AB, the industrial holding company of the Wallenberg family
- **Alessio Pacces**, Professor of Law and Finance, Erasmus School of Law, Erasmus University Rotterdam
- **Joanna Cound**, Managing Director, Government Affairs & Public Policy, BlackRock
- **Jeroen Hooijer**, Head of Unit, DG Justice and Consumers, European Commission

Moderated by **Diego Valiante**, Ph.D., Head of Capital Markets Research, CEPS - Head of Research, ECMI.

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Professor Ronal Gilson (Stanford Law School) started with a comment on the book 'The Nordic Corporate Governance Model' (Per Lekvall (ED.)) and argued that there is no single best approach to corporate governance and that companies have done well under different systems over the past decades. He further underlined that while a certain type of corporate governance model might be predominant at the national level, as for instance dispersed ownership in the USA, the systems still support other forms of corporate governance. Nonetheless, the different systems have different advantages for instance with regards to innovation processes. Prof Gilson underlined the advantage of a dispersed ownership in an industry where radical innovation is required: the exposure to the market increases pressure on the management to adapt swiftly. On the other hand, in an industry where incremental innovation is predominant a less dispersed ownership structure shelters the company from market movements and facilitates on-going, incremental innovation. Despite the difference in the systems and the success of diversity in corporate governance models, he identified minority shareholder rights as a features which is necessary for the success of both systems. Minority shareholder rights protect against self-dealing, where a majority of shareholders enacts decision at the detriment of the minority. He pointed out that courts in the US play a major role in securing minority shareholder right and that due to an absence of such a court in the EU, cross border shareholder rights continue to be difficult to exercise resulting in uncertainty and lower cross boarder equity investments. His policy recommendation is hence not to interfere with the diversity of corporate governance models in the EU but to instead set up a European Corporate Court that can ensure minority shareholder rights in order to stimulate cross border equity finance.

The investor point of view was represented by **Mr. Jacob Wallenberg** (Investor AB) who supported Mr. Gilson's assessment that no one-size-fits-all model exists and that diversity in corporate governance models is viable. Mr. Wallenberg is the Chairman of Investor AB, which has a long standing tradition of looking to engage in the long run and to be an active shareholder. Consequently most of its investments are aimed to reach a significant shareholder position, which allows influence over the directions of the company. Nonetheless, he would not suggest to change the Nordic Model of strong minority shareholder rights as he believes that these rights favor the overall long term orientation of Swedish companies, which partly explain their resilience. While he underlined that the Nordic model cannot necessarily exported to other countries he made some specific recommendations such as that auditors should be selected by the shareholder and not by the board.

As the previous speakers **Mrs**. **Joanna Cound** (BlackRock) agreed that there is no one-size-fits-all approach to corporate governance structures. However, she identified two aspects that she believes are vital to all systems namely a) Protections of minority shareholder rights, as equally underlined by Mr. Wallenberg, and b) Transparency about financial and non-financial fundamentals. Transparency should for instance include information about the structure of remuneration. It is also these two aspects which are among the main criteria for Institutional investors, such as BlackRock, to make investment decisions. Further, Mrs. Cound rejected the notion that only active Asset Managers engage with the company and highlighted that passive investors have an interest in the long term success of a company. Eventually also a passive investor can make use of its voting rights to restrict remuneration and influence the companies decision this way. Finally she expressed concerns about double voting rights as these can reduce minority shareholder rights and underlined the importance of the board to expose itself to reduction of remuneration for a credible, long term commitment.

Professor Alessio Pacces (Erasmus University Rotterdam) agreed that there is no best corporate governance model because a company may need different structure at different stages of its life cycle, which he described as dynamic corporate governance. Nonetheless he explained that especially the Swedish system is characterized by long term commitment and investments as well as low cost of capital, which allows companies to raise the patient capital they need in order to grow. He identified the strong minority shareholder rights as one of the key elements of this success story. The big challenge of the Swedish systems is evolution i.e. the transition of power to the next generation of business leaders. Here he underlined the importance to signal strong commitment. In line with Mrs. Cound he supported the view that institutional investors with a long term objective can support companies through investor engagement. Finally he suggested that regulators should focus on preserving diversity in corporate models and ensure that companies can choose between the different models.

Mr. **Jeroen Hooijer** (DG Justice and Consumers European Commission) firstly made clear that the European Commission has no intention to fully harmonies corporate governance models in Europe. Instead he acknowledged the advantages of diversity in and competition among corporate structures which equally allows to take into account national traditions. Secondly, while underlining the strong performance of Nordic corporates he raised the question to what extent the success and resilience is due to the wider environment such as the stability of the economy and the strong legal system rather than to their corporate structure. This underlines that a transfer of the system might not have the same effect in other countries and supports the view of the need for a variety in corporate governance models. Thirdly, Mr. Hooijer outlined that the commission has done a lot in terms of improving transparency over the past years also with regards to non-financial reporting such as the board composition. The current proposal for a revision of the shareholder directive attempts to achieve even more transparency in line what had been discussed during the panel. Finally he said that the Capital Markets Union should also address the issue of exercise of cross boarder shareholder rights which is still not working well.

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