The Ownership Structure and Control Mechanisms in Sweden: Case Study of Leading Pyramidal Corporations

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Submitted to the
Institute of Graduate Studies and Research
in partial fulfillment of the requirements for the Degree of

Master of Science
in
Banking and Finance

Eastern Mediterranean University
January 2014
Gazimağusa, North Cyprus

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ABSTRACT

This study describes the differences between the corporate governance systems and the ownership structures around the world. It concentrates on the ownership structure of the firms in continental European countries and examined control-enhancing mechanisms that are used to increase controlling power of dominated shareholders in selected developed countries such as Germany, France, Italy and the Netherlands.

By using data collected from listed companies in Stockholm stock market, this study analyses the ownership structure of the firms in Sweden to identify the major shareholders and determine their level of controlling power in the firm. We demonstrate that large international corporations in Sweden are owned and controlled by few shareholders that may be wealthy families or institutions. Multiple voting right shares, the pyramid structure as well as cross-shareholding are considered as the main control enhancing mechanisms that are widely used in Swedish firms. Three wealthy families owning large business groups are investigated as case studies in order to clarify how they have leveraged their controlling power in their group of firms by using control-enhancing mechanisms. Attempting to maintain the reputation and trustworthy of the business as well as prioritizing the stakeholders' perspective are considered as the key factors that have led to the long run success of these family businesses.

Keywords: corporate governance systems, ownership structure, control enhancing mechanisms

ÖZ

Bu çalışma, kurumsal yönetişim sistemleri ve dünya çapında sahiplik yapıları arasındaki farklar açıklanır. Bu tez Avrupa kıta ülkelerindeki firmaların ortaklık yapısı üzerinde yoğunlaşmaktadır ve Almanya, Fransa, İtalya ve Hollanda gibi seçilmiş gelişmiş ülkelerde hakim hissedarlarının kontrol gücünü artırmak için kullanılan kontrol arttırıcı mekanizmaları incelenmiştir.

Stockholm borsasında listelenen şirketlerden toplanan veriler kullanılarak, büyük hissedarlar belirlenmişi ve firma içinde kontrol gücü düzeylerini belirlemek için İsveç'teki firmaların ortaklık yapısı incelenmiştir. İsveç'te büyük uluslararası şirketlerin zengin aileler veya kurumlar, birkaç hissedarlar tarafından sahip sahibi olduğunu ve kontrol edildiğini tespit edilmiştir. Birden fazla oy hakkı payları, piramit yapısı yanı sıra çapraz hissedarlık yaygın olarak İsveçli firmalar tarafından kontrol arttırıcı mekanizmalar olarak kullanmaktadır. Büyük iş grupları sahibi üç zengin İsveçli ailelerinin kontrolü artırıcı mekanizmalar, kullanılarak gruba şirketleri nasıl kontrol ettikleri vaka analizi metodu ile incelenmiştir. İtibar ve iş güvenilir yanı sıra paydaşların bakış açısını ön planda tutarak, bu aile işletmelerin uzun vadedeki baş anlana neden olan faktörler olarak kabul edilmektedir.

Anahtar Kelimeler : kurumsal yönetim sistemleri, ortaklık yapısı, kontrol arttırıcı, mekanizmalar, İsveç.

ACKNOWLEDGEMENT

First, I wish to express the deepest appreciation to my supervisor Prof.Dr.Cahit Adaoğlu for his excellent guidance, caring, patience throughout my thesis as well as his endless efforts in teaching me in my academic life. Without him, this thesis would not have been written.

I also thank all the lecturers and instructors in Department of Banking and Finance for their constant efforts and encouragements.

I want to take this opportunity to express my gratitude to my parents. I am extremely grateful and indebted to them for their unwavering efforts through my entire life.

I especially thank my husband (Aram). I would not be able to complete this thesis without his continuous supports.

I also place on record, my sincere thanks to all who, directly and indirectly, have lent their helping hand in this venture.

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Chapter 1

INTRODUCTION

Corporations are managed and organized by a system, namely the corporate governance. In fact, the corporate governance consists of rules defining relationships between different parties involved within the corporation such as the shareholders, the board of directors, the managers and other stakeholders. Nowadays, inefficiencies in this system have led to damaging consequences and several cases of fraud, and as a result losses of billions of dollars. That is why numerous researches are being carried out in order to study and evaluate the outcomes of efficient corporate governance on the performance of the firms.

The corporate governance mainly deals with problems arising from the separation of the ownership and control in the corporations. The managers who are the shareholder's agents, are supposed to make important decisions in the firm that could best serve the shareholders' interest, which is to maximize the value of the corporation. The problem arises when the agents attempt to pursue their own interests that may differ from what the stockholders desire. There would be a conflict in their interests, known as the agency problem resulting in agency costs. The efficient corporate governance could minimize the agency problem by means of utilizing capable managers chosen by the board of directors and the owners of the corporation and establishing a clear relationship between them (Investopedia, 2013).

There is no single model for efficient corporate governance that could work for all types of corporations in diverse industries and different countries. However, there are basic principles of the corporate governance providing a good reference for enhancing the firm's performance by minimizing the problems.

The basic principles of corporate governance, as classified by OECD are:

The shareholder's right: Shareholders have specific rights in the corporation depending on the class of stocks they own. General meetings give the shareholders opportunity to exercise their voting rights in which they choose the members of the board of directors. Therefore, they would be able to participate in important decisions and strategies of the firm.

Interests of other stakeholders: In addition to the shareholders, board of directors and managers, there are other parties involved within any corporation including the employees, customers, local communities, suppliers and creditors. The firm has obligations to them that may be legal or contractual which must be fully recognized.

Roles and responsibilities: Considering the required size (number of people), the levels of independency and commitment, those senior executives and members of board should be chosen who have relevant experiences and good skills and deep understanding to monitor and challenge the management performance. The roles of the senior executives and the board members must be established relatively.

Honesty and ethical behavior: There are essential criteria that must be used in electing the board members and executives. The most important one is the integrity.

The ethical and responsible decision making behavior could be promoted by developing suitable policies in the corporation.

Disclosure and transparency: Publicly presenting the clear roles and obligations of the board and executives of the firm in addition to providing timely financial reports aid all investors to get realistic information. It will also increase the level of the accountability of the firm from stakeholder’s point of view. (Gee, 1992; OECD, 2004)

The corporate governance has different mechanisms, which influence the value and profitability of the firm. This study focuses on one of the major significance of those mechanisms, which is the ownership structure. The ownership pattern of the corporations around the world are categorized based on two major models. The insider dominated and the outsider dominated model, which will be evaluated in detail in the following chapter. (Xinting, 2013)

On one hand, the shareholders are the legal owners of the corporation. Depending on the type of the shares, they have the right to govern and control the firm. The minority shareholders are always worried about their rights in making decisions in the corporation. On the other hand, investment banks and other financial institutions are always looking for having more control on their investments within the firm. Therefore, they try to augment their control on the corporation and to ensure that managers attempt to maximize the value of the firm and pay back the loans. The meaning of the control in corporations is that the shareholders having the legal title to the assets and resources of the firm are entitled to determine how an asset or resource should be used. They choose the board members who in turn are the one in charge of employing or firing the managers.

This thesis evaluates the corporate governance system in different countries around the world with a special focus on the continental Europe and it clarifies the dominant ownership structure of corporations in Sweden and the method of corporate governance in the most leading ones. Sweden is one of the wealthiest countries with high level of growth in technology. The development in this country began in the 19th and 20th centuries, while it was converted from a mainly underprivileged agricultural society into the heart of heavy industries. Now, the Swedish businesses and industries including telecoms, automotive and pharmaceutical have a great influence in the global market (10 world-shaping Swedish companies, 2013). Sweden is considered as the origin of many innovative corporations, which have been shaping our world. Electrolux, Ericsson, H&M, Ikea, Spotify and Skype are the popular ones. Swedish corporate ownership model thus resembles the predominant corporate governance model on the continental Europe. However, it differs from most of them in a couple of respects. First, the entire ownership on the stock exchange is predominated by a few controlling owners. Second, Swedish controlling ownership is founded on a smaller capital base than that in other continental European countries. Then, we investigate popular control enhancing mechanisms being used frequently in Swedish corporations including the pyramid structure, cross holdings, and dual class shares. One of the most popular one is the Wallenberg family. They control an international bank and industry groups through their holding company in Sweden namely the Wallenberg Sphere, which is considered as the biggest family owned business in Europe. In 1990, the Wallenberg sphere was projected to implicitly control a third of the national GDP. (Burton, 1990)

The study will show how these families have increased their voting power resulting in more control on the leading corporations in Sweden.

The structure of the thesis is as follows: Chapter two reveals information about the corporate ownership structures around the world. It continues with a comparison between the countries with good and poor investor protection and explains how the ownership structure differs in these countries. We are facing more widely held corporations and dispersed ownership in Anglo-Saxon countries like United States. On the contrary the ownership structure is more concentrated with large shareholders among European countries such as Germany, the Netherlands, France and Italy which will be examined in details in this chapter (Solomon, 2007). Chapter three concentrates on the mechanisms that are implemented to increase the power and control in the corporations and it demonstrates how these control-enhancing mechanisms are being used in different countries around the world. However, the focus is on the European countries. Chapter four starts with the ownership structure of the corporations in Sweden. Chapter five specifically studies three main family businesses in Sweden namely Wallenberg and Stenbeck. It focuses on their financial annual report and reveals detailed information about the ownership structure, the level of concentration to a single shareholder and the control enhancing mechanisms in these samples. Chapter six concludes that the dominated ownership of the large corporations in Sweden is highly concentrated and the ultimate owners of leading firms are few wealthy families in this country.

This study only evaluates the differences in level of control by shareholders in the corporations resulted from application of the control enhancing mechanisms. However, several other techniques including share landings or derivatives could have a great influence on the voting rights and control in the firms, which is not addressed by this thesis. Additionally, to avoid complexity, other factors affecting the investments and attractiveness of increasing control in corporations such as taxation and regional regulations is not investigated in this thesis.

Chapter 2

THE CORPORATE OWNERSHIP STRUCTURE AND CONTROL AROUND THE WORLD

Many studies have been carried out in order to classify the corporate governance systems of countries all over the world. There are many factors affecting these systems in each continent including different legal regulations, culture, economic elements, existence of the financial markets and institutions and the ownership structure of the corporations (Barca, 2001). Ownership structure is considered as one of the most significant aspects of the corporate governance. That is mainly because it has a powerful impact on the managers' motivation and consequently the firm's economic efficiency (Anderson, 1999). There is a considerable difference in ownership patterns of corporations operating in different countries. We can classify the corporate governance systems regarding the type and level of control, ownership and the character of the main controlling stockholders (Xinting, 2013).

According to Yoshimori 1995, the stakeholder and shareholder perspectives are two major angles that have shaped the fundamental thoughts and arguments about the ownership structures of the firms and the corporate governance systems around the world. The shareholder-oriented pattern is also named as the market outsider system, which is mainly applied in Anglo Saxon countries including the United States of America and the United Kingdom. However, the stakeholder-oriented pattern is mostly used in continental Europe. It is also known as the insider system. (Anderson, 1999; Solomon, 2007)

2.1 Outsider-oriented (Market) Model

According to the outsider system, the corporation's management is under the control of managers, but the ownership belongs to the outside stockholders. The word 'outside shareholder' refers to the individual investors or financial institutions (institutional investors). This model of the corporate governance could be applied in countries, which have efficient and liquid capital markets so that the firms could use equity financing as a tool of raising fund and the shareholders could regularly trade their ownership and control rights. It is not surprising that this pattern of corporate governance is also well known as the UK-US (Anglo-Saxon) model. Firms in these two countries have access to the largest capital markets and are able to apply the outsider system to control and govern the corporations (Solomon, 2007). The fundamental features of the outsider-oriented model relating to this study are described below.

2.1.1 Shareholder Orientated

In the outsider system of corporate governance, the shareholder perspective is predominant approach than the stakeholder approach. Top managers attempt to pursue the shareholders interest that is maximizing the firm's value and less attention is paid to other stakeholders including employees, suppliers and customers (Ikol, 2012).

Yoshimori in 1995 underlines this fact that in US and UK firms, efforts are being done to increase the wealth of the shareholders (Franklin, 2005). He examines large publicly traded companies with dispersed ownership to compare the concept of corporation in Japan with other countries. He made his survey by asking questions from CEOs of the different companies. He wanted to know that interest of which party involved in the firms is prior to be fulfilled from the CEOs points of view.

Figure 1 shows that in US and UK, Most of the CEOs declared that being able to pay the current dividend to the shareholders is more significant than providing job securities for the employees.

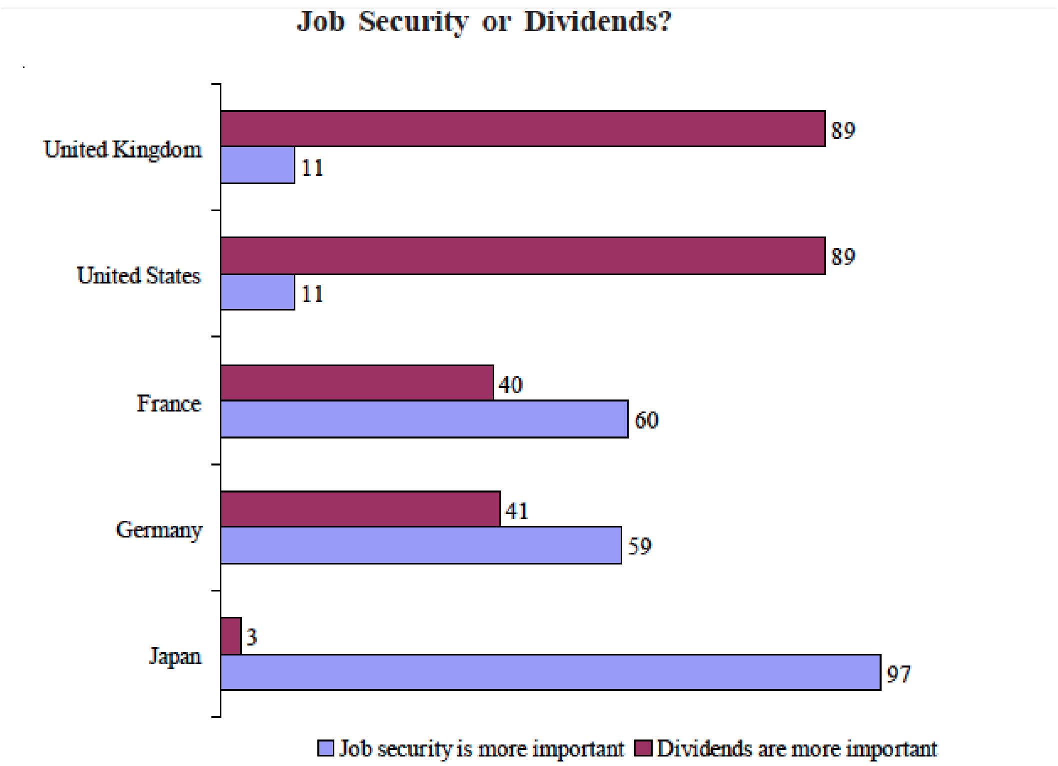

Figure 1. Dividends or Job security?
Source: Yoshimory (1995), P.33-44
Note: survey has examined 68 firms in Japan, 83 firms in US, 75 firms in UK, 105 firms in Germany and 68 firms in France.

In the outsider-oriented system of the corporate governance, usually compensations for managers are designed in line with the level of the profitability of the firm in order to motivate the managers and to ensure that they will attempt to maximize the firm's value. Therefore, most firms decide on reducing the labor force to become able to maintain present profitability (Franklin, 2005).

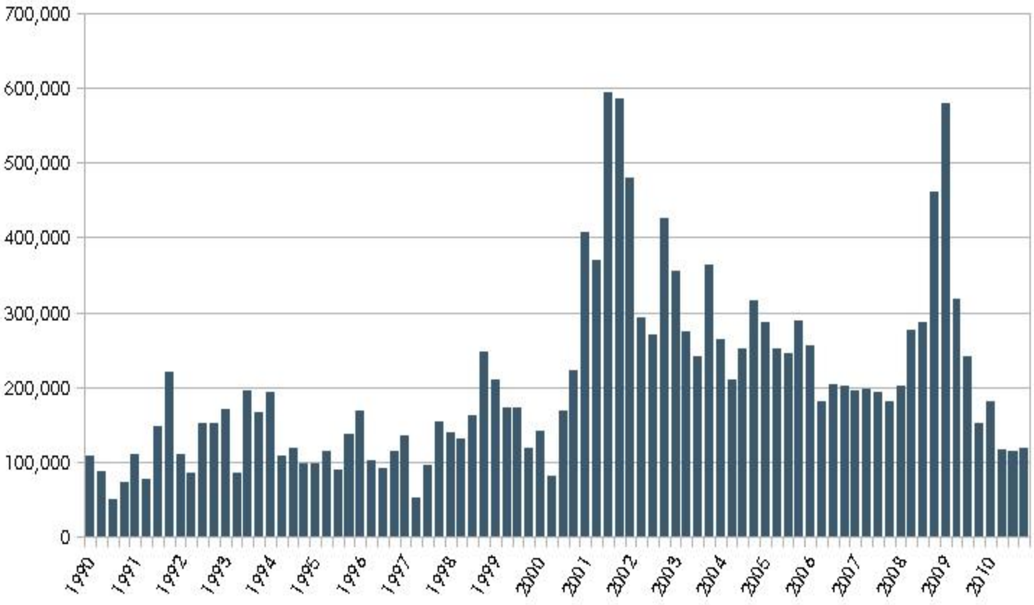

Figure 2.Job-Cut Announcement Report
Source: Challenger Gray and Christmas corporation (2010)

Figure 2 indicates high number of job cutbacks that occurred in last two decades in US firms indicating the shareholder-dominated system of corporate governance has become more prominent.

2.1.2 Ownership Structure and Control

The ownership structure of the corporations governed by the outsider system is dispersed (widely held). That means a single big corporation may have over a million owners that many of them hold few number of shares (Rama, 2006). Meanwhile, there would be institutional shareholders that normally own greater number of shares. A very simple schematic picture of the ownership structure in outsider system is demonstrated in Figure 3.

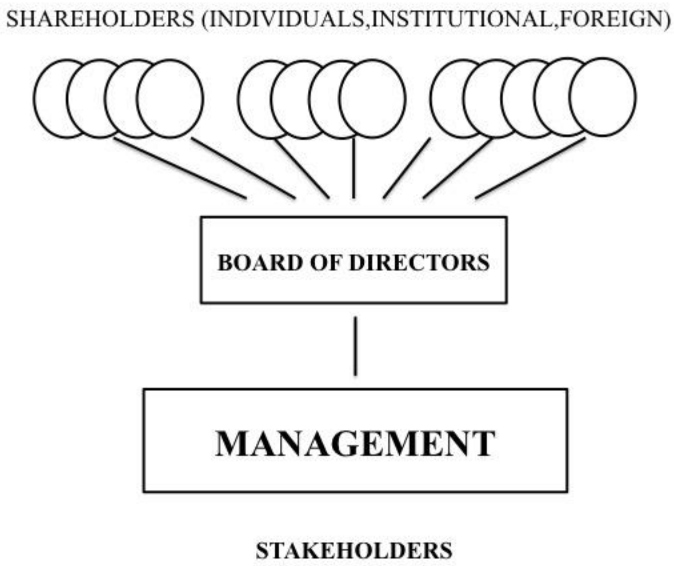

Figure 3. Schematic view of the ownership structure in the outsider system of corporate governance
Source: Sharifi (2013)

In this system, shareholders exercise their rights indirectly by participating in general meetings and electing the board members. The ownership structure is highly fragmented so that it is rarely possible for a single shareholder alone to have high influence on the management of the firm. In this model, the ownership and control are separated from each other (Mueller, 2004). However, agency problems arise from this separation. Therefore, the shareholders have to incur direct and indirect costs to monitor the management and ensure that they are acting along the side of their interests (McCahery, 2002). Nevertheless, there are specific laws regulating the firms in these countries that establish a very clear relationship between different parties involved in the firms that could prevent agency problems (Rama, 2006). Specialists including different investment funds, auditors and rating agencies, target large corporations and monitor their performance and reveals information about them.

Therefore, transparency and high disclosure in the market would help investors to get necessary information about the corporations.

2.1.3 Composition of the Board of Directors

Most firms following the outsider model of corporate governance have the single tier board consists of two groups of members together with the chairman and CEO of the firm. First group includes executives who are either employee or have a strong relation with the corporation; the second one consists of non-executive directors that are independent of any tight relationship with the firm (Anderson, 1999). The trend is in the favor of having more independent board directors and regulatory bodies in several countries having been pushing for this change.

2.2 Insider-oriented Model

The insider-oriented model, which is mostly dominant in continental European countries, is a system of corporate governance in which firms are lead and controlled by few numbers of major stockholders. The insider system is also named as the relation based system. It is mainly due to the fact that the shareholders of the corporation in this system have a strong relation with the management (Rama, 2006). Shareholders in this system could be the family or the founders of the firm, the lending banks, other holding companies or the government (Mueller, 2004). This model has its own principles making it different from the outsider model. The fundamental features resulting in a different system of corporate governance and ownership are discussed below.

2.2.1 Stakeholder Oriented

A wider view of the corporation is considered by the stakeholder-dominated system. A manager in this model is responsible for a broader group of stakeholders other than only stockholders. The permanent or temporal staffs, contractors, clients, bankers, the community members are all included as other stakeholders incorporated in a firm. Figure 4 demonstrates the responses of the firms' CEOs of different countries to this question: "Whose company is it?" In Figure 4, the shareholders' perspective is considered more important in US and UK corporations whereas, the stakeholder oriented approach is noticeable in France, Germany and Japan.

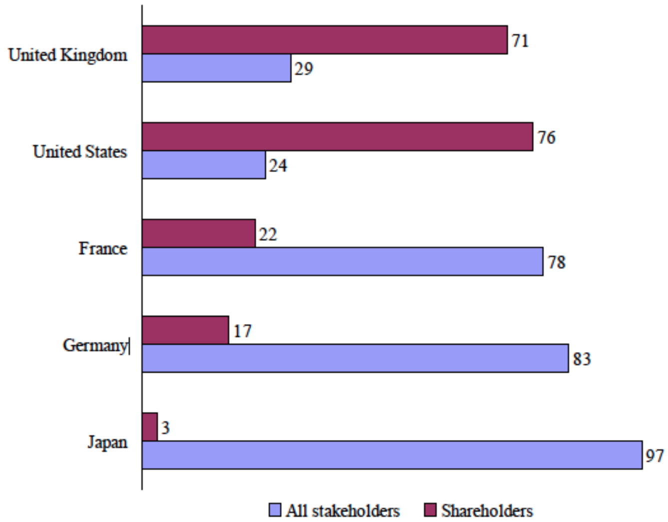

Figure 4. Shareholders' perspective vs. stakeholders' perspective
Source: Yoshimory (1995), P.33-44
Note: survey has examined 68 firms in Japan, 83 firms in US, 75 firms in UK, 105 firms in Germany and 68 firms in France.

In stakeholder-dominated system, all stakeholders whom they work together to reach their common goal are considered as the firm's owner. The manager attempt to maintain the long-term viability of the firm and ensure that all employees and stakeholders besides shareholders do fine (Solomon, 2007).

2.2.2 Ownership Structure and Control

The ownership structure of the firms run by the insider system of corporate governance is much different from what is being seen in US and UK. This system is dominant in continental European countries as well as Japan. The ownership structure in this system is very concentrated among few numbers of shareholders.

These shareholders might be the holding companies, wealthy families, financial or non-financial institutions that have a strong relation with management and great incentives of controlling the firm (Barca, 2001).

Figure 5 is a schematic simple view of the ownership structure in the insider-oriented pattern of corporate governance. As it is shown in this figure, the management of the firm is monitored and controlled by the block holders that own the majority of the shares and as a result, the controlling voting power. However, the real ownership structure in European corporations is more complex because of the existence of the control enhancing mechanisms including dual class shares, pyramid and crossholding structures.

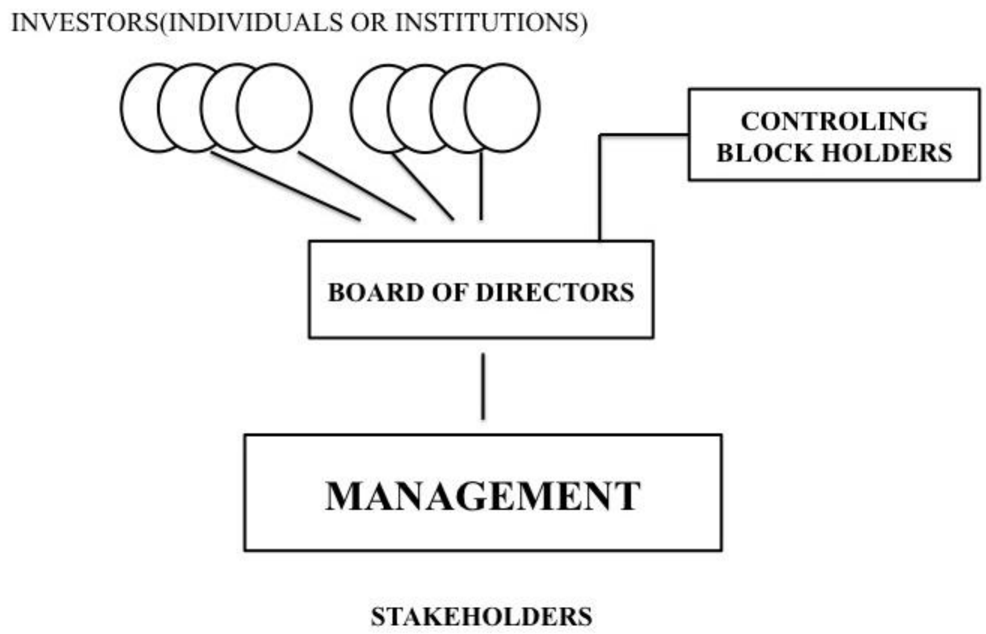

Figure 5. Schematic view of the ownership structure in the insider dominated system of corporate governance
Source: Sharifi (2013)

Table 1 illustrates the number of listed companies in which a single shareholder has the ownership of a quarter (25%) of the shares. In Sweden, almost 64 % of the listed firms are controlled by major shareholders who own at least 25% of the stocks of the firm. The number of firms with this type of ownership structure is very few in US stock markets (European Commission, 2004; Thomsen, 1997; Becht, 2004).

Table 1. Level of Block holding per country

LISTED COMPANIES WITH A BLOCK HOLDING MINORITY OF ATLEAST 25% OF SHARES	
COUNTRY	SHARE (IN %) OF ALL LISTED COMPANIES
Belgium	93.6
Austria	86
Germany	82.5
Netherlands	80.4
Spain	67.1
Italy	65.8
Sweden	64.2
UK	15.9
United States-NYSE	7.6
United States-Nasdaq	5.4

Source: Ferrarini (2004)

The block holders actively engage with the management affairs and with the concentrated voting rights, they have enough power to influence on decision-making processes. Therefore, in the insider-oriented system, the agency problem will be minimized. However, the fundamental conflict usually arises between the block holders and the minority shareholders (Barca, 2001).

2.2.3 Composition of the Board of Directors

Most of the corporations in continental European countries have two-tier board of directors that consists of the supervisory and the management board. The supervisory board, consisting of non-executive agents, appoints the managers. Supervisory board members are elected both by the shareholders and by employees (other stakeholders)

(Anderson, 1999). Figure 6 demonstrates a very simple schematic view of a two-tier board system.

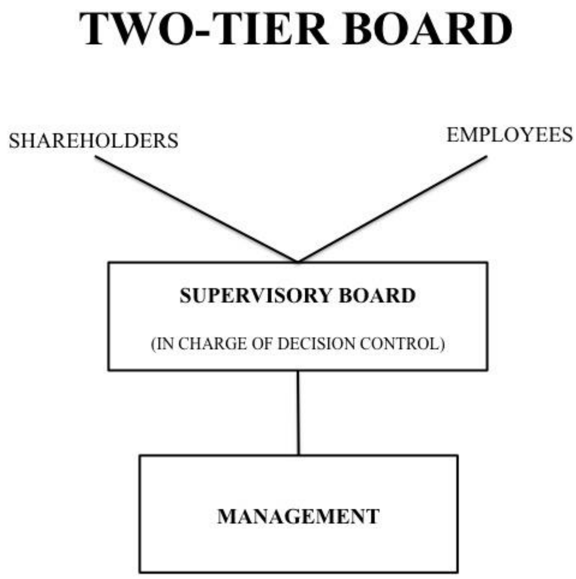

Figure 6. Two-tier board system
Source: Sharifi (2013)

2.3 The Ownership Structure in Europe

In 2002, Faccio and Lang started doing researches in order to find the ultimate pattern of ownership structure of the western European companies. They studied 5,232 publicly traded corporations and they found that two types of ownership are popular in these countries. First category is about 44.29 % of the firms that are controlled via families and the second category refers to the 36.93 % of corporations that are held widely (Faccio, 2002).

Table 2 provides more detailed information about the ownership pattern in the sample countries. It demonstrates that there is a big difference between the typical ownership structure of companies in continental Europe and UK and Ireland. As it is mentioned before, the corporate governance in UK is outsider dominated. That is why the ownership structure is mostly dispersed. Whereas in continental Europe countries, the dominant ownership model is family based in which wealthy families are the major controlling shareholders of publicly traded companies. Table 2 indicates that companies in Germany and France have the highest concentration.

Table 2. The ultimate ownership structure in western European countries

Country	Number of Firms	Widely held (%)	Family (%)
Austria	99	11.11	52.86
Belgium	130	20	51.54
Finland	129	28.68	48.84
France	607	14	64.82
Germany	704	10.37	64.62
Italy	208	12.98	59.61
Norway	155	36.77	38.55
Portugal	87	21.84	60.34
Spain	632	26.42	55.79
Sweden	245	39.18	46.94
Switzerland	214	27.57	48.13
Ireland	69	62.32	24.63
UK	1,953	63.08	23.68
Total	5,232	36.93	44.29

Source: Faccio (2002)

The corporate governance systems and the ownership structures in European countries have been changing by time. However, the ownership and control of the firms are considered as the core features that maintain its major characteristics over time and do not change dramatically. However, globalization trend in financial markets has a great influence on the structures of corporate governance around the world. Nowadays, there is more information provided for outside shareholders (investors). More disclosure and transparency has been the recent change and the trend (K.Thompson, 2006).

According to the reports published by FESE (Federation of European Securities Exchange (AISBL), the ownership structure of the shares in stock markets of Europe have changed in different aspects. Figure 7 illustrates the share ownership pattern of the listed companies in Europe at the end of 2005. Data collected from 21 markets in Europe represents the 97% of the capitalization in European exchange in that particular year. Shares in the markets are held by two major groups: foreign investors and the private financial companies with the ownership of 33% and 31% respectively (FESE economics and statistic committee, 2005).

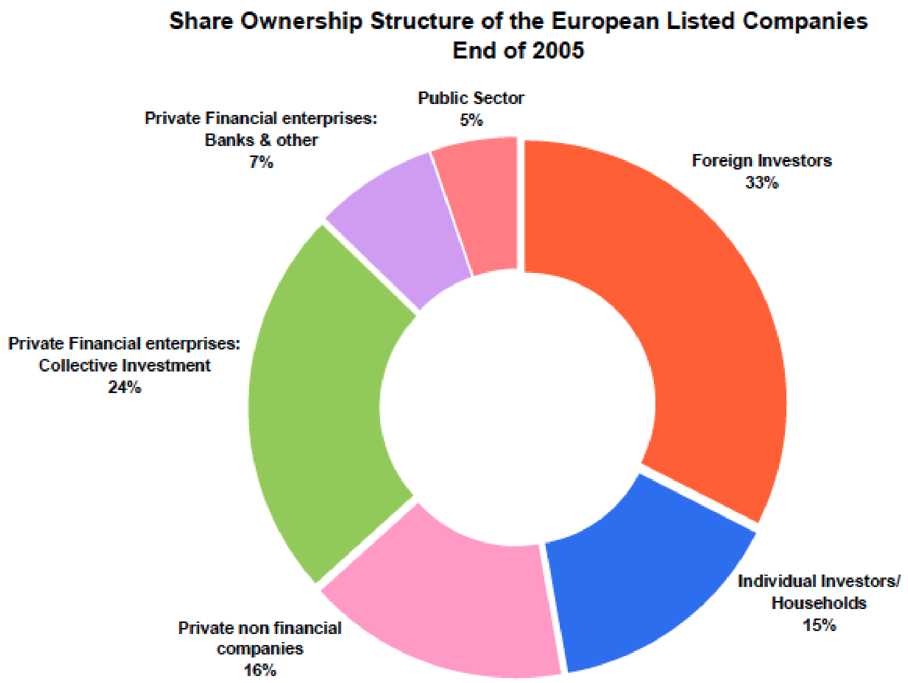

Figure 7. Share ownership structure of the listed companies in continental Europe
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

There have been changes since 1999 in the European exchange markets. Figure 8 shows that there are slightly more (about 4%) foreign investors participation in the European markets in 2005 than in 1999. Growth in the trend of globalization and introduction of Euro as single currency could be considered as important factors increasing the level of foreign investments between 1999 to 2005. However, Germany and Italy have not followed the trend. Therefore, the level of the foreign ownership of traded shares in these two countries is considerably less than that in other sample countries. Moreover, higher number of foreign investors hold shares in Swedish exchange market in 2005 than those in 1999.

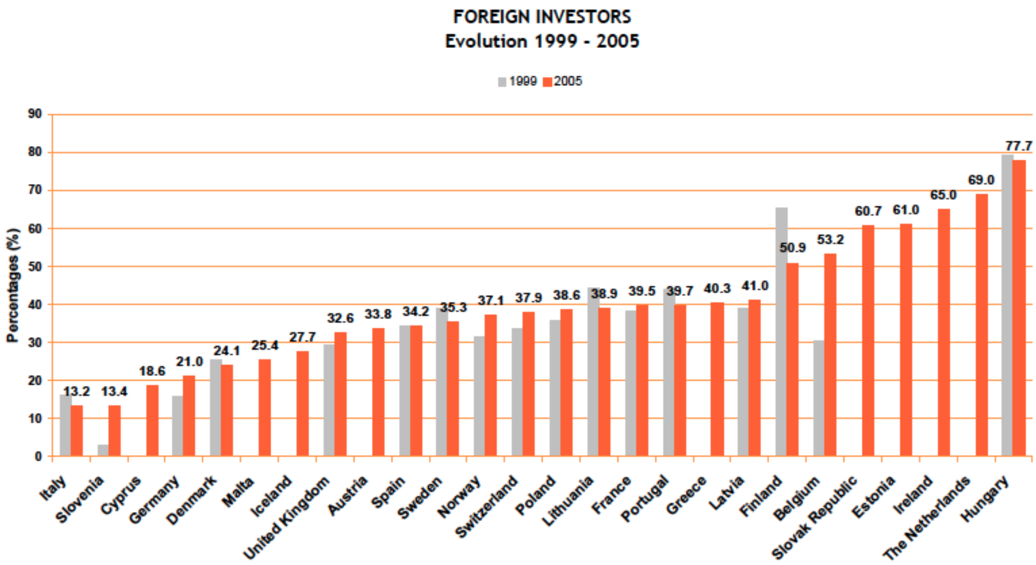

Figure 8. The proportion of foreign investors in continental Europe per country
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

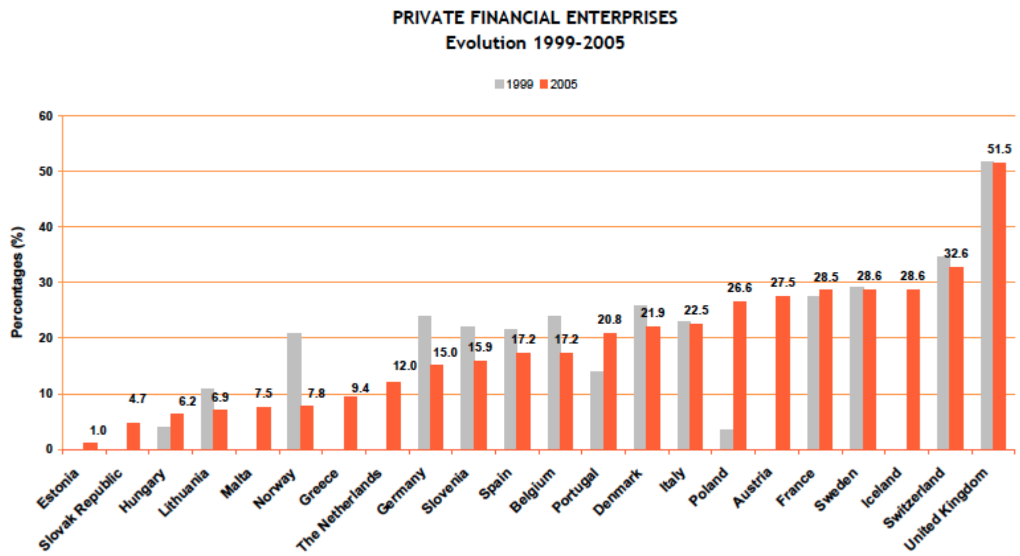

Figure 9. The proporation of investments by private financial enterprises in continental Europe per country
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

Figure 9 explains that the share ownership of the private financial enterprises including the pension and insurance funds and other collective investment companies in European markets varies across different countries and has decreased during the last decade. However, this amount of participation is remarkable in Sweden and has not changed dramatically since 1999.

The average level of individual or household share ownership in European markets is 15 %. Three years market crisis of the democracy between 2000 and 2002 has a great effect on the participation of the households in the European markets so that there are fewer households and individuals trading shares in 2005 in comparison with those in 1999.However four countries are exceptions. The individuals' investment has risen in Denmark, Poland, Italy and Belgium.

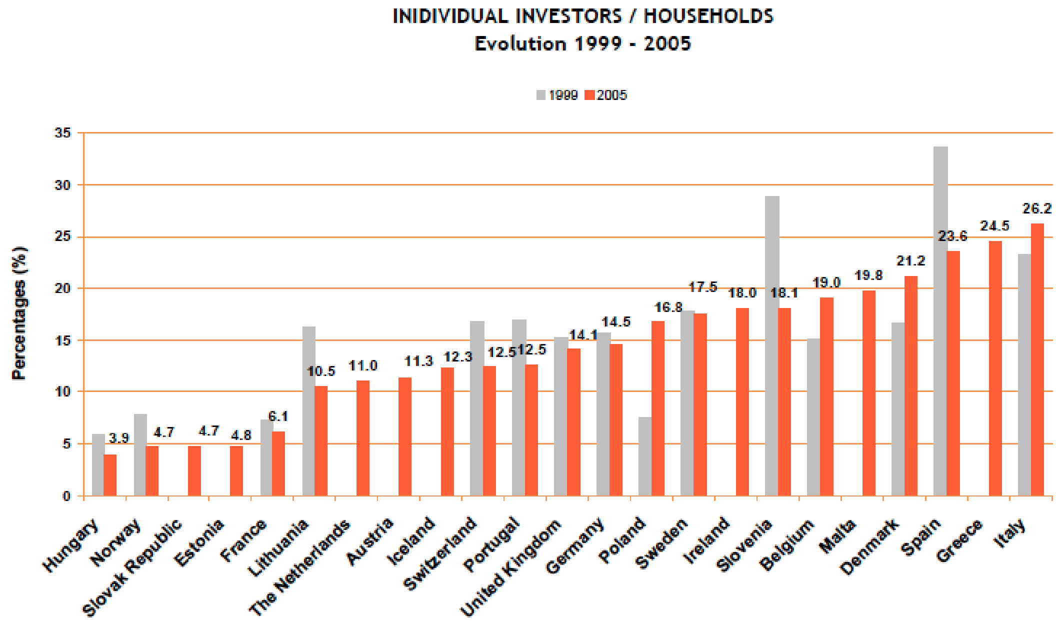

Figure 10. The proportion of households' investment in the continental Europe per country
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

Note that the number of individual or household investors has been almost stable in Sweden. A country, in which the participation of the households and individual investors are lower, is not necessarily a poor country. It is due to the fact that households do not allocate their savings to the financial instruments or they are mostly reluctant to bear risks. That is why individuals and households in most of continental European countries prefer to hold their investment in real estate, banks, pension funds or mutual funds rather than directly held stocks. In other words, these countries are bank-oriented whereas US and UK are two major market oriented countries (Brealey, 2011).

2.3.1 Germany

Germany could be considered as the classic sample for the insider oriented system of corporate governance. The level of the ownership concentration is high in Germany (European commission, 2004). As it is demonstrated in Figure 11, the majority of the listed shares are held by private non-financial companies and the public sector don not play a significant role in the shares ownership. Banks or other financial institutions hold 24 % of the listed shares. However, their participation in the companies' share ownership has been declining during recent decades that is noticeable in Figure 12 (Jurgens, 2000). In comparison to foreign investors, individuals and households in Germany are less active in the market.

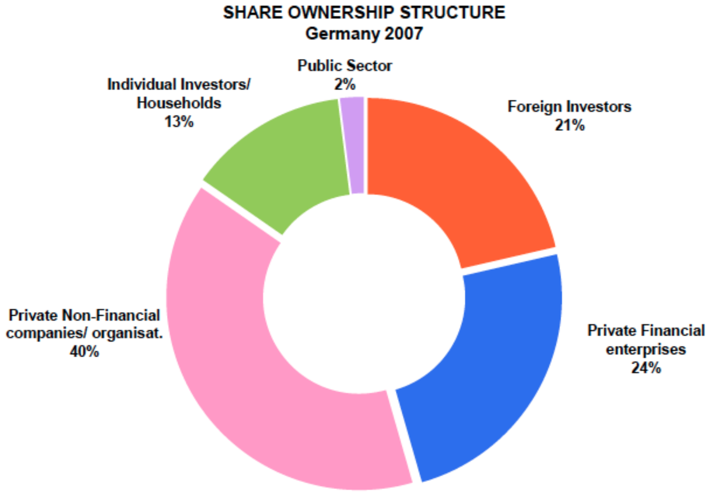

Figure 11. Share ownership structure in Germany
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

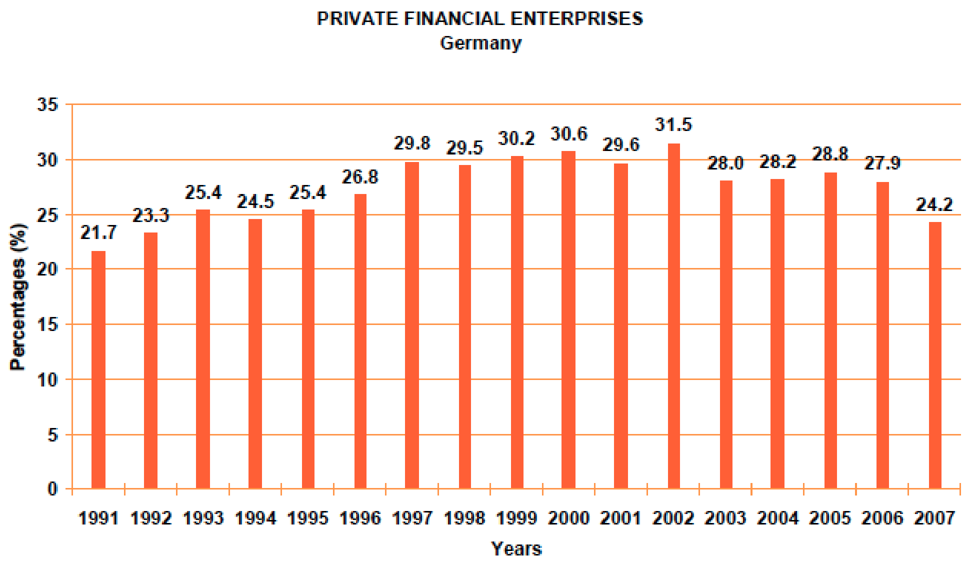

Figure 12. Market participation of German private financial institutions
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

Table 3. The ownership concentration in eleven European Countries

OWNERSHIP OF THE HUNDRED LARGEST COMPANIES IN ELEVEN EUROPEAN MEMBER STATES					
COUNTRY	**Dispersed ownership**	**Dominant ownership**	**Family-owned**	**Cooperative**	**Government-owned**
Austria	0	7	25	10	20
Belgium	4	20	6	3	6
Denmark	10	9	30	17	11
Finland	12	25	23	10	19
France	16	28	15	3	22
Germany	9	30	26	3	10
Italy	0	22	20	0	29
Netherlands	23	16	7	13	7
Spain	6	22	8	5	14
Sweden	4	31	18	12	21
UK	61	11	6	1	3

Source: European Commission (2004)

Wealthy families control a high number of the firms. Cross holding is one of the popular control enhancing mechanisms that is frequently applied in the German corporations. Further details are discussed in the following chapter.

2.3.2 The Netherlands

Corporations in this country are mostly governed by the insider-oriented model. The level of concentration depends on the size of firms. Giant Dutch corporations are widely held whereas the ownership structure in medium and small sized firms are more concentrated (Barca, 2001). Changes have happened in the ownership pattern of the large Dutch firms. Recent studies suggest that the half of the shares of very large companies is owned by the foreign investors (European Commission, 2004).

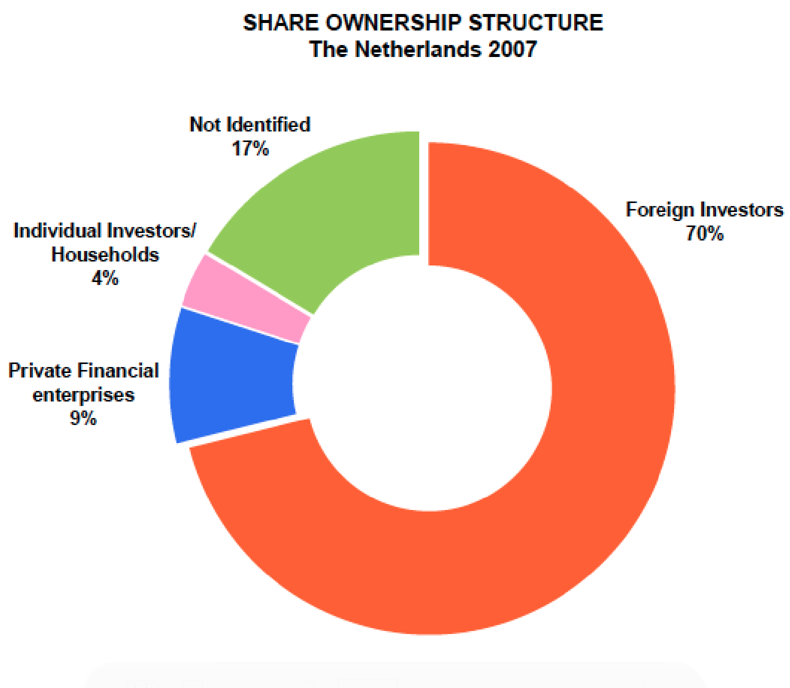

Figure 13. Share ownership structure in the Netherlands
Source: Federation of European securities exchange Economics and statistics committee (FESE) (2005)

Dutch economy is known as the most opened one in the world. As Figure 13 demonstrates, 70% of the listed shares in the Dutch market is in the hands of the foreign investor (European Commission, 2004; FESE economics and statistic committee, 2005).

2.3.3 France

Although the government and state have considerable control on large corporations in France, the ownership structure of firms is concentrated and is in hands of wealthy families. There are many historical events leading to changes in the financial system and the ownership pattern of the firms in France (Murphy, 2005). Banks, capital markets, and self-financing (internal financing) are main tools that generate funds for corporations. The banking system and capital markets in France have experienced large shocks (University of Alberta, 2004). Therefore, it is not surprising that French wealthy families controlled businesses using self-financing as the main approach to provide fund for their firms. As an example of the family based business model in France we can refer to Michelin and Peugeot as two major leading companies in the world that had been originally founded in 19th century by wealthy families. At the beginning of the last decade, foreign investors have increased in their participation in their holding of the shares of large French corporations. Nowadays a high percentage of shares in most large French corporations are owned by American, British and European investors (FESE economics and statistic committee, 2005).

2.3.4 Italy

The family based businesses are prominent in Italy with a high level of concentration. Italy had experienced deep changes in the second half of 19th century. After that period, the ownership structure of domestic corporations stabilized though. Many large firms have been privatized that were previously owned by the state. Therefore, the role of public sector has decreased considerably in the ownership of the large firms. Resident and non-resident households increased their participation in the Italian stocks market. However, the concentrations in the ownership pattern of the companies that are listed in markets are very high. On average, by means of control enhancing mechanisms, one single shareholder holds 48% of the voting right in a firm (Volpin, 2003).

Chapter 3

CONTROL ENHANCING MECHANISMS

As it is mentioned before, the shareholders are the legal owners of a corporation that having rights (claims) in the firm. This chapter focuses on the cash flow rights, the voting rights, and the mechanisms that are applied in purpose of making deviations between these two rights. The cash flow right is defined as the sum of the cash flow stake in a corporation, which is held by a shareholder. The voting right allows the shareholder to participate in general meetings, exercise his right by voting on different decision-making processes, and have a level of control on the firms' actions. The way that these two rights are distributed among different shareholders varies in corporations around the world.

The approach, that shareholders contributing the same amount of funds and capital have the same claim to exercise their voting power and must have equal chances and opportunities to participate in decision making processes within the firm, is described as the “One-share-One vote” principle (Burkart, 2007). However, this principle is not executed in all corporations around the world. The Association of British Insurers evaluated 297 companies as sample to provide information about the application of one share-one vote principle in corporations around the world. As it is presented in Figure 14, only 65% of the sample companies apply this principle in their governance system. Belgium, Germany and UK are the countries in which high numbers of firms have adopted this principle whereas; a minority of corporations in France, Netherlands and Sweden has adopted it. Therefore, there would be a separation between the cash flow rights and the voting rights of the shareholders of the companies in these countries (Association of British Insurers, 2005; Schid, 2009).

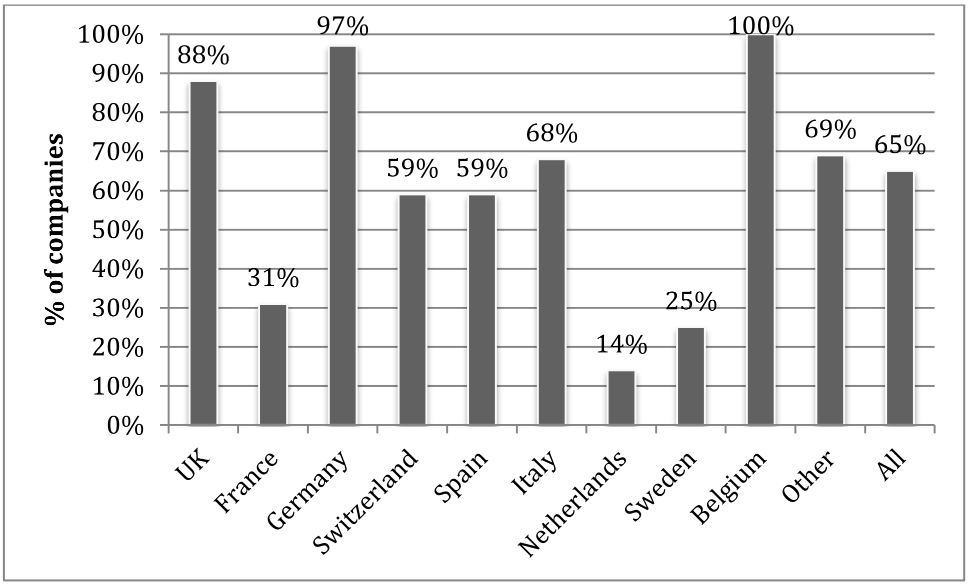

Figure 14. One share-one vote principle per countries
Source: Association of British Insurers (2005)

There are few approaches known as control enhancing mechanisms (CEMs) that are being used by corporations around the world in order to increase the voting rights of particular shareholders relative to their ownership (cash flow) stake (Villalonga and Amit, 2006). A block holder, a wealthy family as an example, could have more influence and control a firm without having higher ownership stake or more capital contribution (Burkart, 2007).

Mechanisms that improve the major shareholders' control in the firm by leveraging the voting rights are as follows. Concentration will be on continental European companies in which the control enhancing mechanisms are widely adopted.

3.1 Multiple Voting Rights Shares (Dual Class Shares)

The voting rights assigned to one class of the shares would be different from others in a corporation. Based on an equal value of investment, a share could give one voting right in a company and another class of the same company offers 10 voting rights (Investopedia, 2013). Most of the firms that decide to go public, issue typical class of shares known as B class shares that usually give one voting right to the investors in the market per par value (share). Additionally they issue another class of shares namely A class shares for the founders, block holders or executives who have a relation with the management. There are more voting rights assigned to the class A shares in order to increase the control power of the particular shareholders (Investopedia, 2013).The higher the voting power, majority of seats would be captured in board of directors. In most cases, the price of these shares is not determined and they would not be traded in the market.

Researches and studies done by the European Commission and Shearman and Sterling in 2006 shows that among 487 listed corporations In European countries, 17% of them apply this mechanisms as a tool to strengthen the position of the major shareholders. Figure 15 shows that a high proportion of companies in Sweden being the highest, France and Netherlands issue the multiple voting shares. However, issuing dual class shares is not common in UK as an example of the outsider oriented model. Additionally, issuing dual class shares is not permitted by law in 8 European countries such as Belgium, Italy, Germany and etc.

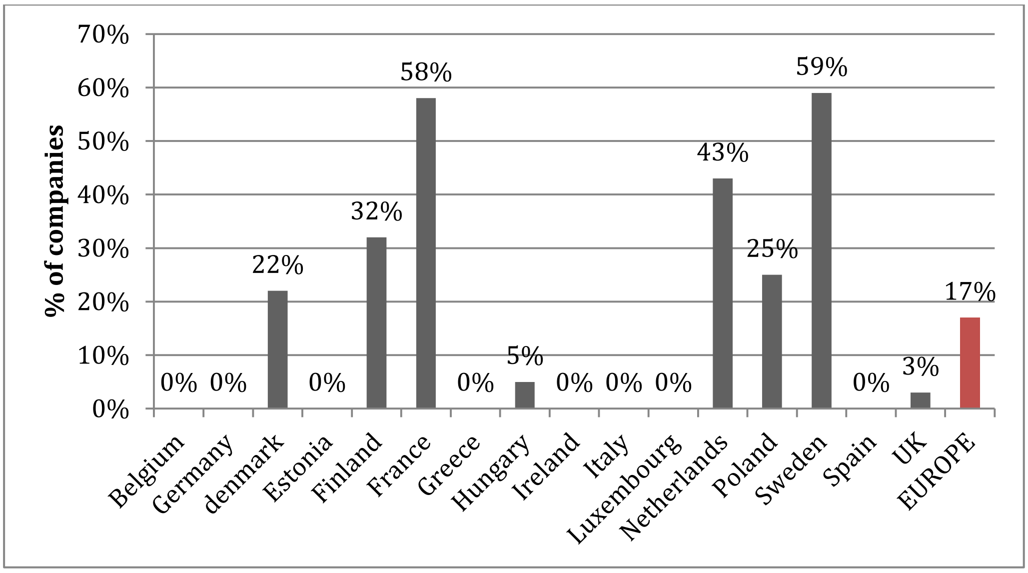

Figure 15. Multiple voting right shares per country
Source: European commission, Shearman and Sterling (2006)

3.2 Non-voting Shares (without Preference)

There is no voting right and even cash flow right assigned to this kind of shares. In some cases, the holder of non-voting shares is not allowed to attend the general meetings (European commission,Shearman and Sterling, 2006). In addition to increasing the control power of main shareholders, issuing this kind of stocks prevents hostile takeovers by means of eliminating the voting right from common (public) stockholders. Takeovers would be highly unlikely to happen if a corporation only sells non-voting shares to the public (Wikipedia, 2013). Non-voting shares are rarely issued in European corporations (European commission,Shearman and Sterling, 2006). Less than 1% of the sample companies apply this mechanism, which are located in Denmark and Ireland. Naturally, this type of shares is traded with a lower premium in the market because of the lack of having the voting right (European Commission, 2004). In Ireland non-voting shares is also known as the income shares, which are mostly offered to the employees of the firms (European commission,Shearman and Sterling, 2006).

3.3 Non-voting Preference Shares (Preferred Stock)

It refers to the shares that have a special cash flow right to compensate the lack of existence of the voting right. The holder of non-voting preferred shares receives dividend as the cash flow right. However, they do not have any power to control the corporation. Corporations raise fund by issuing preferred stock so shareholders who own common shares could exercise their controlling power by having less cash flow stake of the firm. 6% of the companies in the Shearman and Sterling study is using the non-voting preferred shares as a tool to increase the control power in the firms. This mechanism is popular in UK, Ireland and Italy (European Commission, 2004).

3.4 Pyramid Structure

The pyramid ownership structure is very common in continental European countries by which wealthy families maintain their control on a group of firms. Pyramid structure of the ownership by means of providing a top-down chain of control gives the major shareholders a high level of voting power in the group relative than what they have allocated as equity to them (Wolfenzon, 2006) . Separation of the controlling power from the actual cash flow right could be considered as the direct result of the pyramid structure (Basir, 2012). Figure 16 illustrates a very simple schematic view of the pyramid structure. As it is demonstrated in Figure 16, a major block holder owns 35% of shares of the corporation A. It means that it has a considerable direct control on this firm. Relatively corporation A itself holds 28% of the shares of corporation B. Similarly, corporation B has 63% of ownership stake on corporation C and the ultimate owner has the direct stake of 6.3%. The amount of ownership and the voting power of the ultimate owner are calculated as follows:

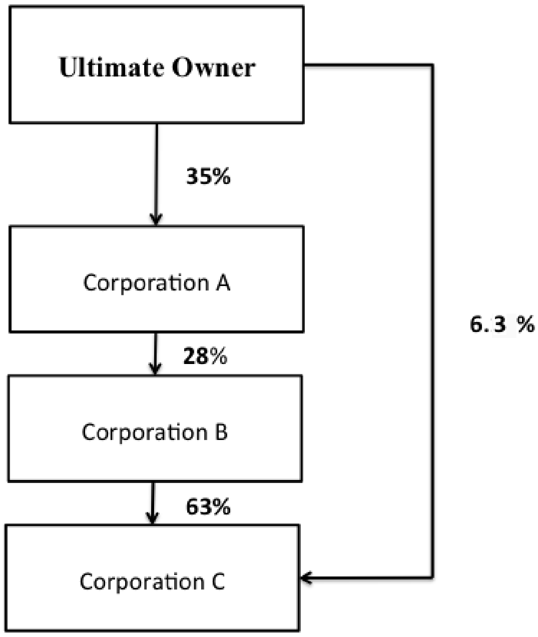

Figure 16. Pyramid Structure
Source: Sharifi (2013)

The cash flow right (ownership) is calculated as 0.35x0.28x0.63=6.17%+6.3% and using the weakest link method, the voting right is the weakest link in the chain in terms of voting power which in this case is equal to 28%+6.3%. The ultimate owner indirectly owns 6.17% of the corporation C and it has the voting right of 28 %. There is a separation between the cash flow right and the voting right here. That means the ultimate owner by means of pyramid structure could enhance his control on corporation C without allocating that much equity to it (Basir, 2012). The higher the number of layers in pyramid structure, wider separation would be realized between the ownership and the voting rights (European commission,Shearman and Sterling, 2006).

According to the study of Shearman and Sterling, the pyramid structure mechanism is widely used in all European countries except Ireland, Denmark and Finland. Once again, Sweden is the leading country adopting the pyramid control enhancing mechanism.

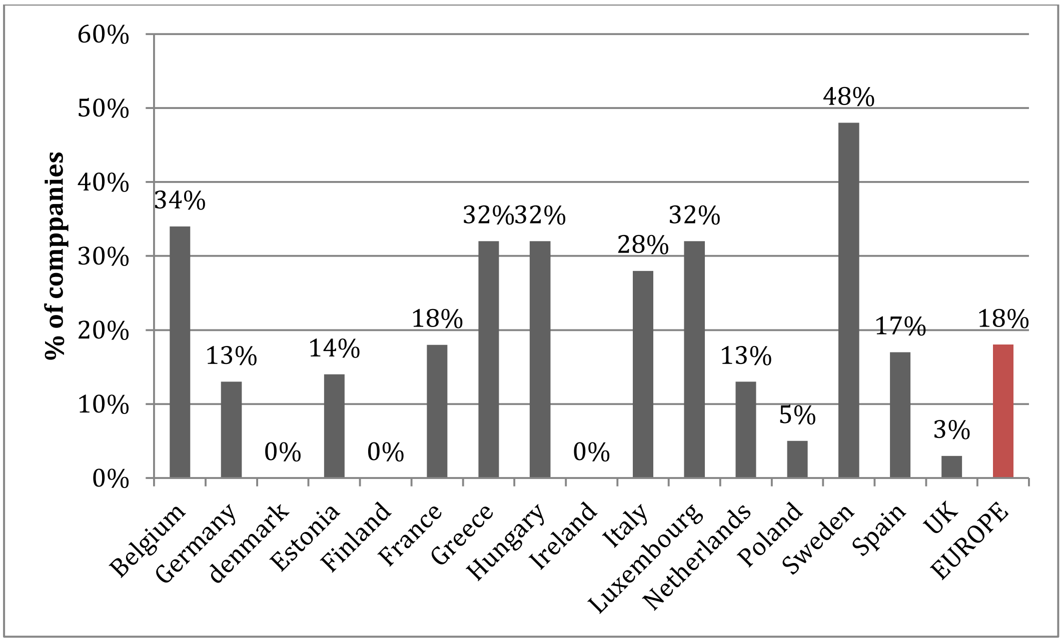

Figure 17. Pyramid Structure per country
Source: European commission, Shearman and Sterling (2006)

Regarding Figure 17, 18% or 83 of the large European companies, use the pyramid structure as a mechanism to increase the voting rights of the block holders in the firm. The majority use of this mechanism goes to Sweden, which will be discussed in detail in the following chapters. The pyramid structure also frequently could be seen in Italian firms with banks, wealthy families or sate as the ultimate owner on the top of the chain.

In comparison with other control enhancing mechanisms, the separation of the cash flow right and the voting right is wider in pyramid structure. Most of the time a combination of these mechanisms is applied in the firms. Almost half of the large companies with pyramidal structures use other CEMs as well. The combination of the multiple voting right shares and pyramid frequently could be observed in Sweden and France.

Addition to the CEMs mentioned above, there are other mechanisms that applying them will lock-in the control power, which will be explained as follow.

3.5 Priority Shares

The specific right to vote and veto in the corporation is assigned to these types of shares. The shareholders can strongly control the firm regardless of the proportion of their cash flow rights or the amount of equity allocated to the corporation. The broad range of rights is appointed to the priority shares, may differ in different firms and countries. Owner of the priority shares could assign a member to the board of director or even he is able to veto a decision that has been taken by other shareholders in the general meeting. The application of the priority shares is mostly found in the Netherlands, UK and France (European Commission, 2004).

3.6 Depository Certificate

Sometimes shares of a corporation are held by a typical foundation, which has a strong relationship and incentives in the firm. This foundation issues financial instruments namely the depository certificate representing the proportion of shares they own. Depository certificates are traded in the market. The voting rights of the shares are exercised by the foundation. However, the holder of the depository can only benefit the financial rights of the underlying shares. Depository certificates are mostly used in the Netherlands and that is why they are also known as Dutch Instruments (European commission,Shearman and Sterling, 2006).

3.7 Voting Right Ceilings

It is referred to the restriction implemented on the voting rights of a shareholder irrespective of the proportion of shares he holds. This mechanism is applied in many European countries in order to prohibit controlling shareholders from influencing the firm above a certain percentage (European Commission, 2004). Voting right ceilings are implemented in two main ways. First, the restriction on the voting right of a single shareholder could be applied by which it could not exceed beyond a certain proportion of all outstanding rights. Second way presents a ceiling, prohibiting a shareholder from executing his voting rights beyond the specific proportion of votes that has been casted in the general meeting. Some corporations use a combination of these two ways. Figure 18 shows that 7% of the companies examine by Shearman and Sterling use the voting right ceiling to restrict the excessive voting power of shareholders (Association of British Insurers, 2005). However, firms in Belgium, Estonia, the Netherlands and Luxemburg are not legally allowed to use this approach as the control enhancing mechanism. Voting right ceiling is not very common in Sweden. On the contrary, Spanish companies are considered as the leading ones in using voting right ceiling control enhancing mechanism.

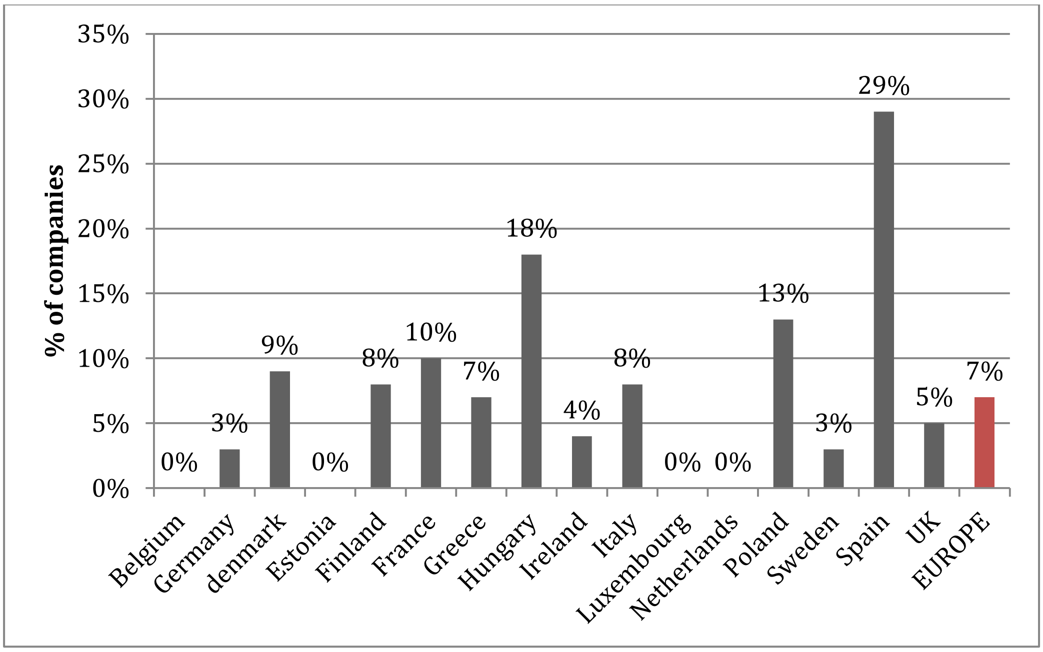

Figure 18. Voting right ceiling per company
Source: European commission, Shearman and Sterling (2006)

3.8 Ownership Ceiling

It refers to the mechanism used in many companies in order to restrict other potential investors from participating in the firm with the voting power above a specific level. This mechanism is almost abandoned in recent years. However, there are still some European countries such as Italy and Greece in which the ownership ceiling is adopted (Association of British Insurers, 2005).

3.9 Supermajority Provisions

This is a control enhancing mechanism, which is mandatory bylaw in many companies. According to the use of this tool, for a decision to be approved, majority of the shareholders' votes (more than 50%) is required (Association of British Insurers, 2005). For instance: in a firm, at least two third of the shareholders must agree on a merger or acquisition. Only then, the decision will be made (Investopedia, 2013).

3.10 Golden Shares

The privatized companies usually issue golden shares in order to give a specific controlling power to the state or the government. In most cases, only one single golden share with a strong voting right would be issued (Association of British Insurers, 2005).

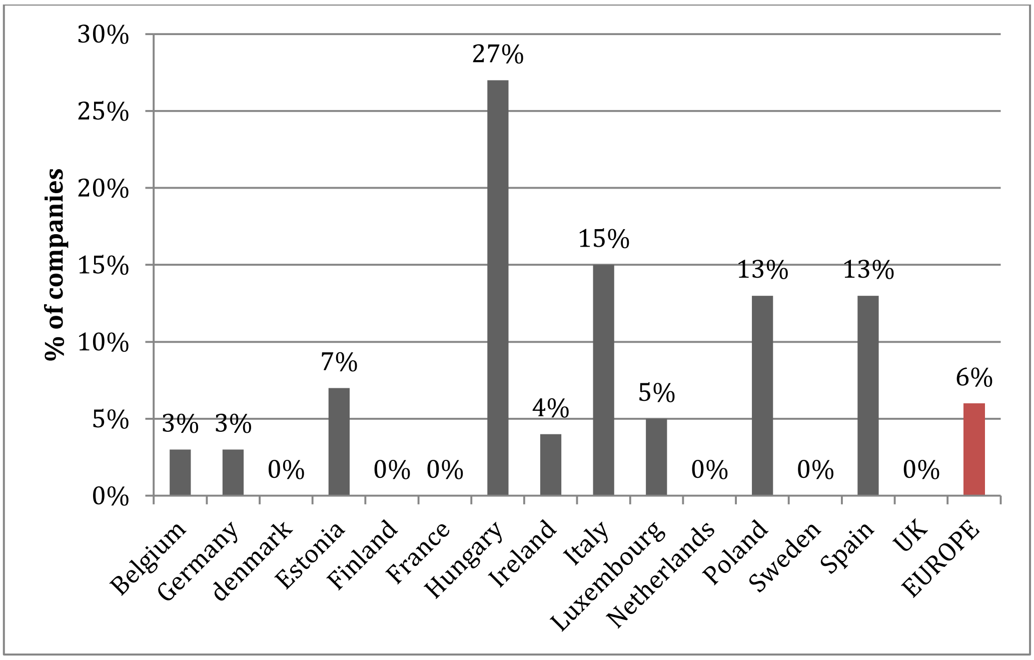

Figure 19. Golden shares per country
Source: European commission, Shearman and Sterling (2006)

Regarding the study conducted by Shearman and Sterling, only 6% of the sample European countries use the golden shares. As it is illustrated in Figure 19, golden shares mechanism is also applied in Italy, Poland and Spain. Six large Hungarian companies operating in four main industries, issue golden shares to give authority and control to the government of Hungary. These shares include various rights. The holder of golden share could appoint a member to the supervisory or board of director as well as to veto decisions previously made in the general meetings.

3.11 Cross-shareholdings

It refers to the structure in which shares of two different companies are mutually held by each other (Kuroki, 2002). Figure 20 reveals a very simple view of the cross-holding shares. Corporation A has a% of the shares in corporation B which in turn has b% stake on A. However, cross holding in large business groups are mostly have a more complex structure and includes more companies (Almeida, 2007). Circular cross-shareholding refers to the situation in which corporation A owns a% of shares of B, respectively corporation B has a stake on C equal to b% and C has shares in A (Almeida, 2007). Corporation A does not have direct stake but indirect ownership and control on corporation C that is equal to a% x b%.

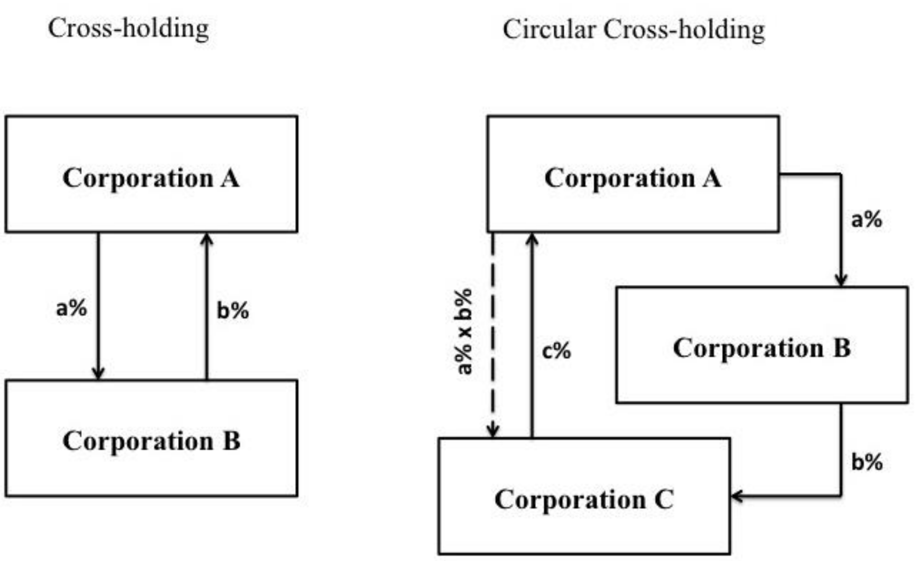

Figure 20. Simple view of the cross-shareholding
Source: Sharifi (2013)

Cross shareholding helps corporations to avoid hostile takeovers. It is mostly used by family group businesses. It aids families indirectly maintain their leadership and control on a business group without owning the majority stake on the firm (La Porta, 1999). Over the past decade, the application of the cross-holding shares gradually became illegal in some European countries. Regarding Figure 21, only 2% of the sample companies use cross-shareholding. In many countries, corporations bylaw could not apply cross-shareholding over a specific percentage of threshold. However, the combination of cross-shareholding with other CEMs such as pyramid, multiple voting right shares, is implemented majorly in Sweden, the Netherlands, Germany, France and Italy (European commission,Shearman and Sterling, 2006).

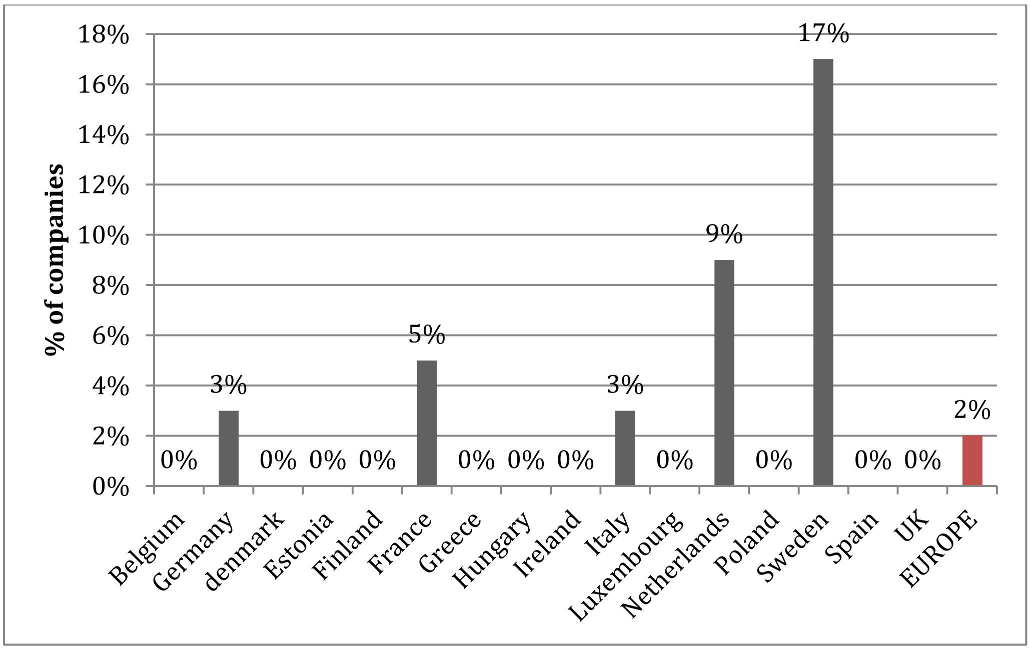

Figure 21. Cross-shareholding per country
Source: European commission, Shearman and Sterling (2006)

3.12 Shareholders Agreements (coalitions)

Shareholder agreements are the explicit contracts, which clarify the major goals of the corporation and the way that it should operate plus what has been determined as the shareholders' rights (Investopedia, 2013). Shareholder agreements are mostly used in venture capital businesses, as they are several parties involved and incorporated with the firm. It provides a clear relationship between the shareholders and managers and also grants each party specific financial and controlling rights. Therefore, it could be used as a tool to increase the voting power of large shareholders (Belot, 2008). Figure 22 demonstrates that 8% of the sample companies apply the shareholder agreements mechanism.

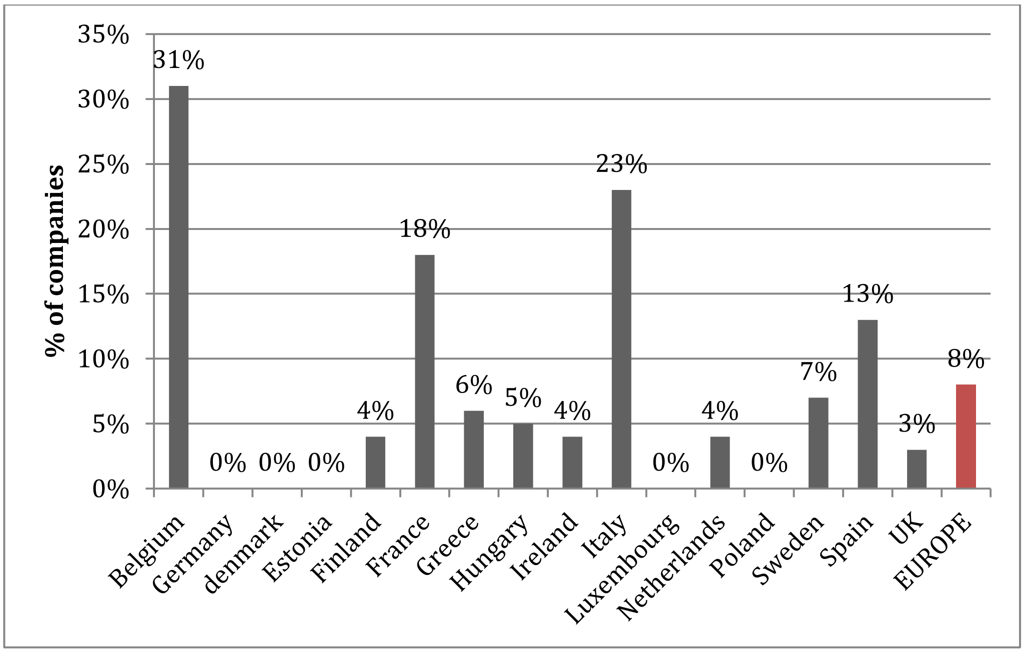

Figure 22. Shareholder agreements per country
Source: European commission, Shearman and Sterling (2006)

Shareholders agreements are executed majorly in Belgium and Italy. In most cases, it combines with the pyramid structure or voting right ceilings (European commission,Shearman and Sterling, 2006).

3.13 Control Enhancing Mechanisms in Selected Continental European Countries

3.13.1 Germany

Only 33% of the sample companies in Germany use control-enhancing mechanisms. One or combination of two to three CEMs are applied in large and new listed German corporations. BMW, Volkswagen, MAN and RWE are four large German corporations, which issue two types of shares including ordinary and non-voting preferred shares. Volkswagen and MAN are also connected via a pyramid structure. 15% of large corporations and 10% of the recently listed companies in Germany use the pyramid structure. In addition Volkswagen uses the voting right ceiling of 20% (European commission,Shearman and Sterling, 2006). As an example of cross-shareholding in German companies, we can refer to the MAN AG. This corporation is one of the European leading manufacturers in the automotive industry (MAN Group, 2013). The ownership structure of this company is illustrated in Figure 23. It has the pyramid structure consisting of three layers. Allianz AG is considered as the major controller of MAN AG, which has, 25% cross shareholding with Münchener Rückversicherungs AG. It has a direct stake equal to 2.7 % in the MAN AG besides it enhances its control power indirectly by using cross shareholding and pyramid structure (Gugler, 2002).

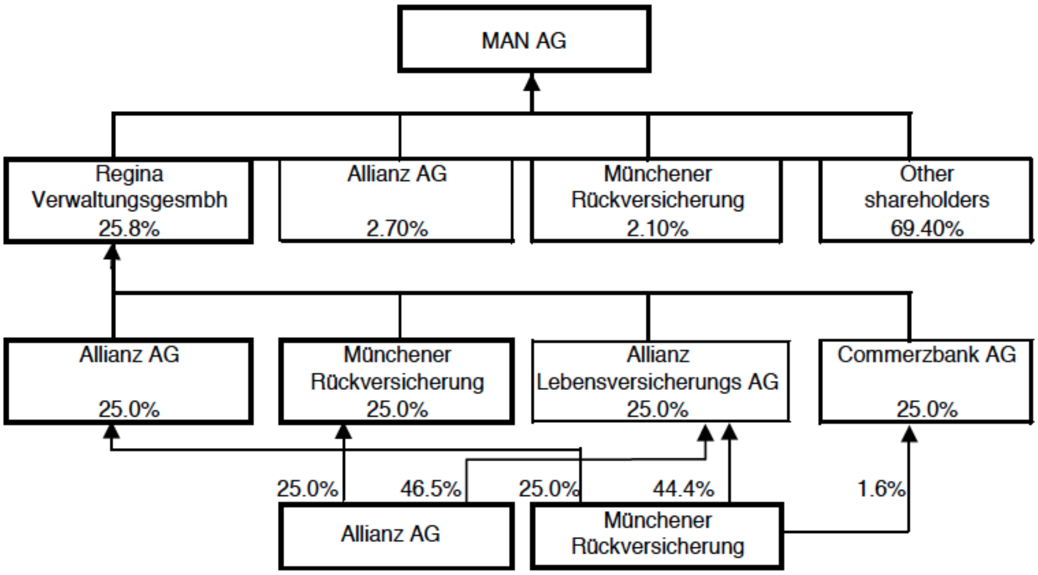

Figure 23. The ownership structure of MAN AG
Source: Gugler (2002)

3.13.2 The Netherlands

65% of all sample companies in the Netherlands use the control enhancing mechanisms. Multiple voting shares and depository certificates are the most popular ones. Ten large corporations apply multiple voting shares such as Akzo Nobel (basic materials), Heineken holding (consumer goods), Unilever (consumer goods),ABN Amro holding and Aegon(financials). Three sample corporations including Heineken that is one of the well-known firm of the beverage industry in the world are uses the pyramid structure (European commission,Shearman and Sterling, 2006). As it is shown in Figure 24, almost 50% of the Heineken is owned by its holding and L'Arche Green holding is the second major shareholder which 85% of its capital is owned by the Heineken family (The Heineken company, 2013).

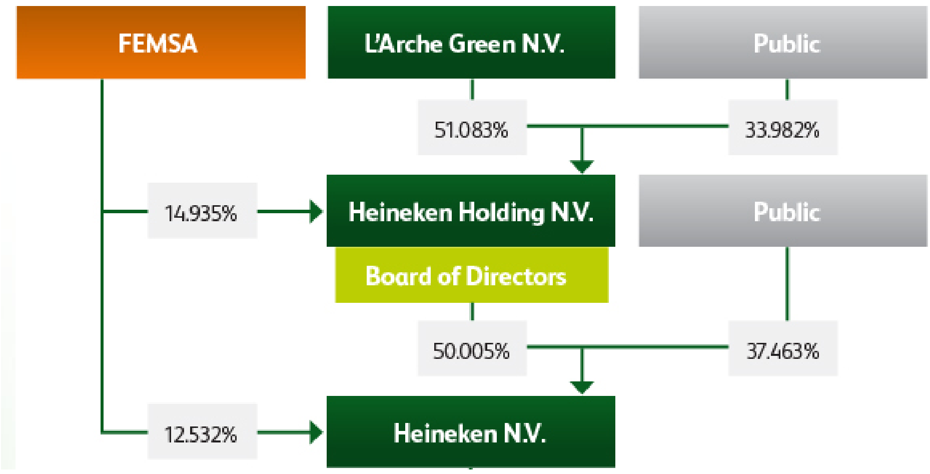

Figure 24. The ownership structure of Heineken
Source: The Heineken company website (2013)

The Heineken holding along with the Akzo Nobel also use the priority shares mechanism to enhance their controlling power. As it is mentioned previously in this chapter, application of the depository certificates is high in the Netherlands. ABN Amro, Ahold, ING Groep and Unilever are four major Dutch sample companies that use this mechanism (European commission,Shearman and Sterling, 2006).

3.13.3 France

The multiple voting share mechanism is used in more than evaluated French companies investigated by Shearman and Sterling. In most cases, double voting rights are offered as a reward to the shareholders that have a long-term ownership in the corporations. However, the proportion of double voting shares varies in different firms (European commission,Shearman and Sterling, 2006).

Figure 25 shows the pyramid structure of five major companies in France. OR represents the ownership (cash flow) right and VR refers to the voting right. Deviations between these two percentages have resulted from the double voting power of long-term owners. Additionally 5.7 % cross-shareholding between AXA and BNP Paribas is noticeable. The voting right ceiling as well as the shareholder agreements is also applied in French companies.

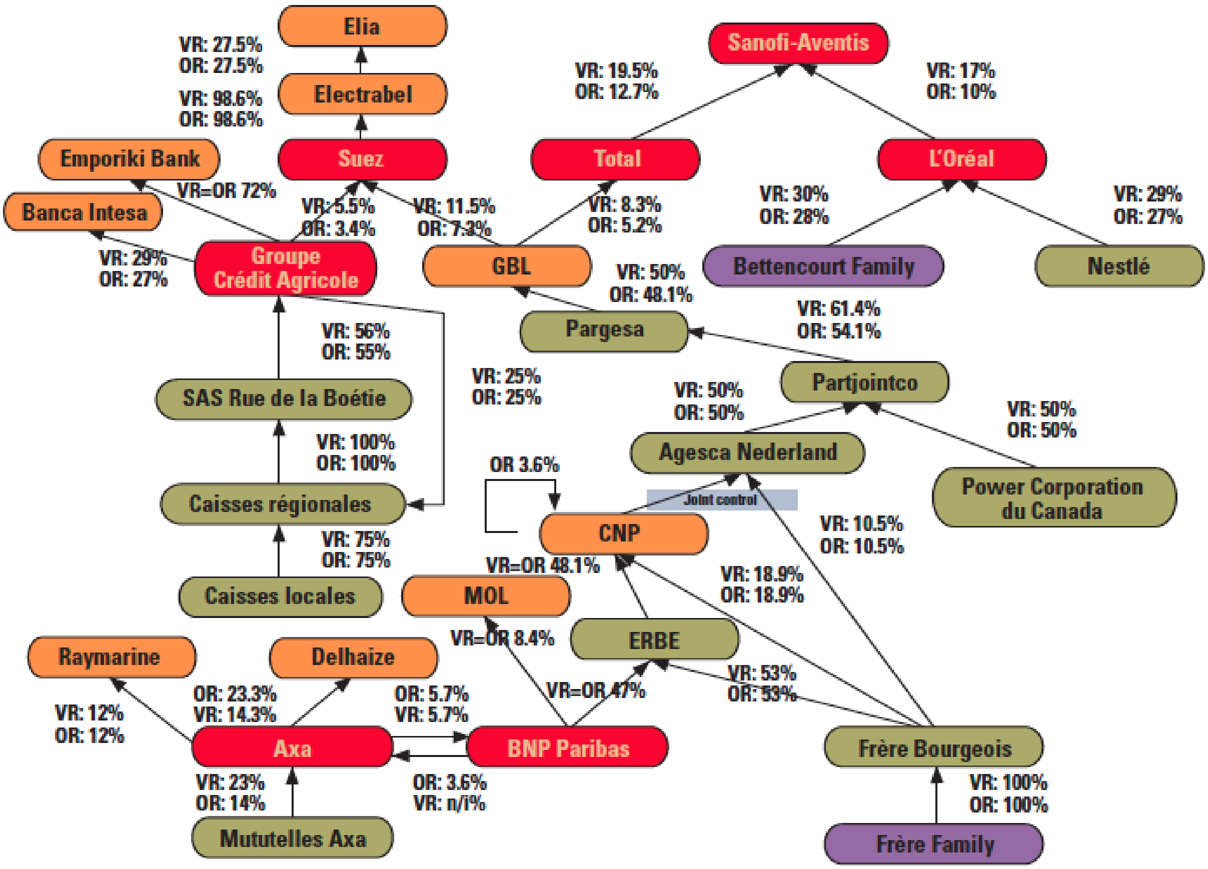

Figure 25. Pyramid ownership in France
Source: European commission, Shearman and Sterling (2006)

3.13.4 Italy

The shareholder agreements and pyramid structure are considered as the most common control enhancing mechanisms in Italy. Nine large sample companies from different sectors including banking, automobile, telecommunication, utilities and gas and oil, use the pyramid structure (European commission,Shearman and Sterling, 2006).The Snam Rete Gaz is one of the leading companies in the gas and electricity sector operating in Italy (wikipedia, 2013). According to the Figure 26, the major shareholder is Eni with 50% of stake and voting right in this firm. Eni and Enel are two leading companies in the utilities and gas and oil sector respectively, which are controlled by the ministry of finance in Italy.

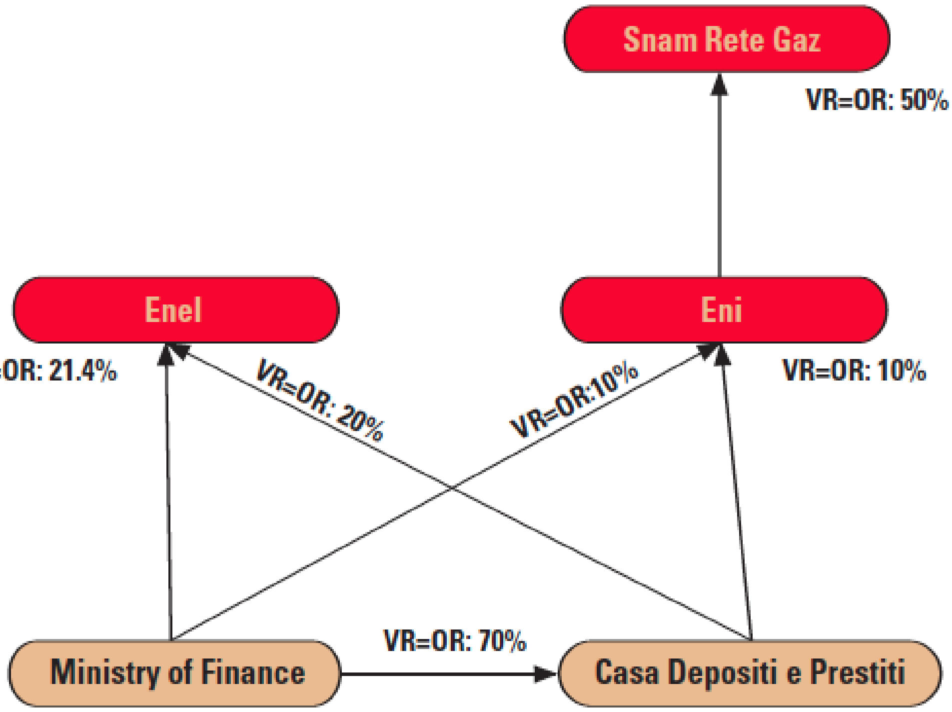

Figure 26. The pyramid structure of Snam Rete Gaz
Source: European commission , Shearman and Sterling (2006)

Chapter 4

CORPORATE OWNERSHIP AND CONTROL ENHANCING MECHANISMS IN SWEDEN

Sweden is considered as one of the wealthiest countries with high level of growth in technology. The development in this country began in the 19th and 20th centuries, while it was converted from a mainly underprivileged agricultural society into the heart of heavy industries. Now, the Swedish businesses and industries including telecoms, automotive and pharmaceutical have a great influence in the global market (10 world-shaping Swedish companies, 2013). Sweden is known as the origin of many innovative corporations, which have been shaping our world. Electrolux, Ericsson, H&M, Ikea, Spotify and Skype are the popular ones. The corporate governance in Sweden is characterized by the insider-oriented model which is predominant in the continental European countries and the ownership structure of corporations are mostly concentrated to one or few controlling block holders who may be wealthy families, private institutions or foreign investors. However, in comparison with other European countries the ownership structure of Swedish firms differs from two points of view. First, the controlling ownership is based on the smaller capital. It is due to this fact that there is a big gap between the cash flow rights and the voting rights in Swedish companies. Second, the ultimate ownership of the stock exchange in this country is in the hands of few dominant shareholders, which are wealthy families. 54 % of the share values in Stockholm Stock Exchange was controlled by two single shareholders together in 1998 (Henrekson, 2003).

4.1 Historical Background

The ownership structure in Sweden has undergone dramatic changes after World War II. Although Sweden has never participated in the last two world wars, the structural changes could be noticed in different sectors of this country during the postwar period. This period could be divided by two phases as follows:

4.1.1 Phase 1 (1945 – 1985)

The first phase started just after the second world war in 1945 with a sharp decline in household investments in the stock exchange. Before that time, participation of the households in stock markets was very high. In 1940s, almost 80% of the stock values in Sweden were held by the households. However, this percentage declined since 1945 and reached 20% by the end of the phase 1. Instead, the institutions began to invest in the stock markets to a corresponding quantity (Henrekson, 2002).

In general, phase one could be described as the period of sharp decline in individuals' ownership and strong rise in the institutional ownership which origins from the policies implemented by Ernst Wigforss, Minister of Finance of Sweden who was attempting to form the Social-Democratic ideology in the economy. Therefore, important economic policies and features performed during phase one in an attempt to reach an equal distribution of wealth among people. The first feature was to implement high tax brackets in order to discourage people to accumulate wealth and form private businesses (Henrekson, 2003).

Supporting large scaled corporations relative to new and small companies is considered as the other policy applied during phase 1 in an attempt to transform the capitalism into socialism. On that time, numerous new firms and self-employed members were known as the major part of the small sized business community, which were forming the backbone of capitalism and inequality in distribution of wealth among people. Eliminating those small businesses was a short run policy but at the same time, a big step toward weakening institutional foundation of the capitalism. Large institutional corporations were not only favored by the Social Democrat ideology but also supported by the most influential theorists including John Kenneth Galbraith in 1950s and 1960s. They argued that efficiency and innovations as well as improvement in production could be realized in large institutional corporations. Less importance was given to the individuals' incentives and bright ideas (Henrekson, 2003).

Between 1960s and 1990s, the Swedish tax system largely disfavored new small intensive capital businesses. However, it supported the large institutional corporations. Wide range of tax brackets could be noticed in that time for diverse types of ownership and different ways of raising funds. In general, households and individual ownerships were subjected to the *heavy taxes* relative to other types of ownerships. Comparing the average rate of return obtained after taxes, borrowing was more advantageous relative to issuing new shares for raising funds.

Depending on the ownership type and source of financing, households and firms were subjected to the different taxation range. Table 4 provides information about the percentage of the effective marginal tax rates (EMTR) used to be applied by the tax system of the Sweden in last decades. Calculations are presented by Jan Södersten (1984). In general, EMTR helps to measure incentives for different marginal investments and it is equal to:

$$EMTR = \frac{\mathrm{R-C}}{\mathrm{R}} \tag{1}$$

R represents the pre-tax expected rate of return and C refers to the after tax rate of return. EMTR gives us the chance to compare the rates of returns for each additional dollar or euro earned in different investments. The formula for direct calculation of the EMTR revealed by King and Fullerton (1999) is complicated which counts depreciations, personal and corporate taxes, inflation etc. However, that is out of the scope of this study (Fullerton, 1999).

In Table 4, the real rate of return before tax is assumed 10% and 10 years is the period of holding assets. The negative signs in Table 4 show that on that particular investment the rate of return after tax is higher than the pretax rate of return. The sign "*" indicates that the tax rate does not include the wealth tax because of changes in tax rules in 1990s. Deviation between the business income taxes were high in 1980s.For example 1980, the real rate of return after tax for a debt financed investment in a tax-exempt institution like pension funds, for each additional unit of currency could be calculated as follows:

$- 0.834 = (0.1 – C) / (0.1) \qquad C=18.34\ \%$

Whereas individual investors by directly holding the stocks of a company that had issued new shares, were able to get after tax real rate of return equal to – 3.66 indicating the loss in investments. Additionally according to Table 4, borrowing is subjected to lower taxes relative than other sources of financing (Henrekson, 2003).

Table 4. Effective marginal tax rates in Sweden

1960	Debt	New Shares Issues	Retained Earnings
Households	27.2	92.7	48.2
tax exempt Institutions	-32.2	31.4	31.2
Insurance companies	-21.7	41.6	34
1970			
Households	51.3	122.1	57.1
tax exempt Institutions	-64.8	15.9	32.7
Insurance companies	-45.1	42.4	41.2
1980			
Households	58.2	136.6	51.9
tax exempt Institutions	-83.4	-11.6	11.2
Insurance companies	-54.9	38.4	28.7
1985			
Households	46.6	112.1	64
tax exempt Institutions	-46.8	6.8	28.7
Insurance companies	-26.5	32.2	36.3
1991			
Households	31.7	61.8	54.2
tax exempt Institutions	-9.4	4	18.7
Insurance companies	14.4	33.3	31.6
1994			
Households	32 - 27 *	28.3 - 18.3 *	36.5 - 26.5 *
tax exempt Institutions	-14.9	21.8	21.8
Insurance companies	0.07	32.3	33.8
2001			
Households	29.7 - 24.7 *	61 - 51 *	44.1 - 34.1 *
tax exempt Institutions	-1.4	23.6	23.6
Insurance companies	19.6	47.2	44.7
2005			
Households	27.9 - 22.9 *	58.1 - 48.1 *	42.7 - 32.7 *
tax exempt Institutions	-1.2	23.2	23.1
Insurance companies	18.2	44.6	42.6

Source: National Bureau of Economic and Research (2010)

In fact, in 1980s, debt financing was favored and possible only for well-established large companies. New small firms and individual businesses had less chance to survive. That is why phase 1 is described as the paradoxical period. While the Social-Democrat Party was attempting to form a system for equal distribution of wealth among people, the tax policies increased the wealth accumulation in large corporations. Therefore, there was a lack of conditions to create wealth at the individual level. Although, the Swedish tax system has been changed since that time, households are still subjected to the higher level of taxes. That has weakened the incentive of households for saving money. Therefore, the business sector of Sweden in phase 1 was dominated by few large existing firms directed by wealthy families who were accumulating more wealth (Henrekson, 2003).

Figure 27 illustrates fifteen families that had dominated controlling power on the economy of Sweden in 1960. These families had leveraged their controlling power by means of CEMs like pyramid structure, cross shareholding and multiple voting right shares. They formed their business in relation with three major banks and their holdings. Although the ownership structure in Sweden has changed since that time, the ownership concentration is still high in this country. Major ownerships of large corporations are in the hands of the 4^{th} generations of some of these families such as Wallenberg (SNS Economic Policy Group, 2003).

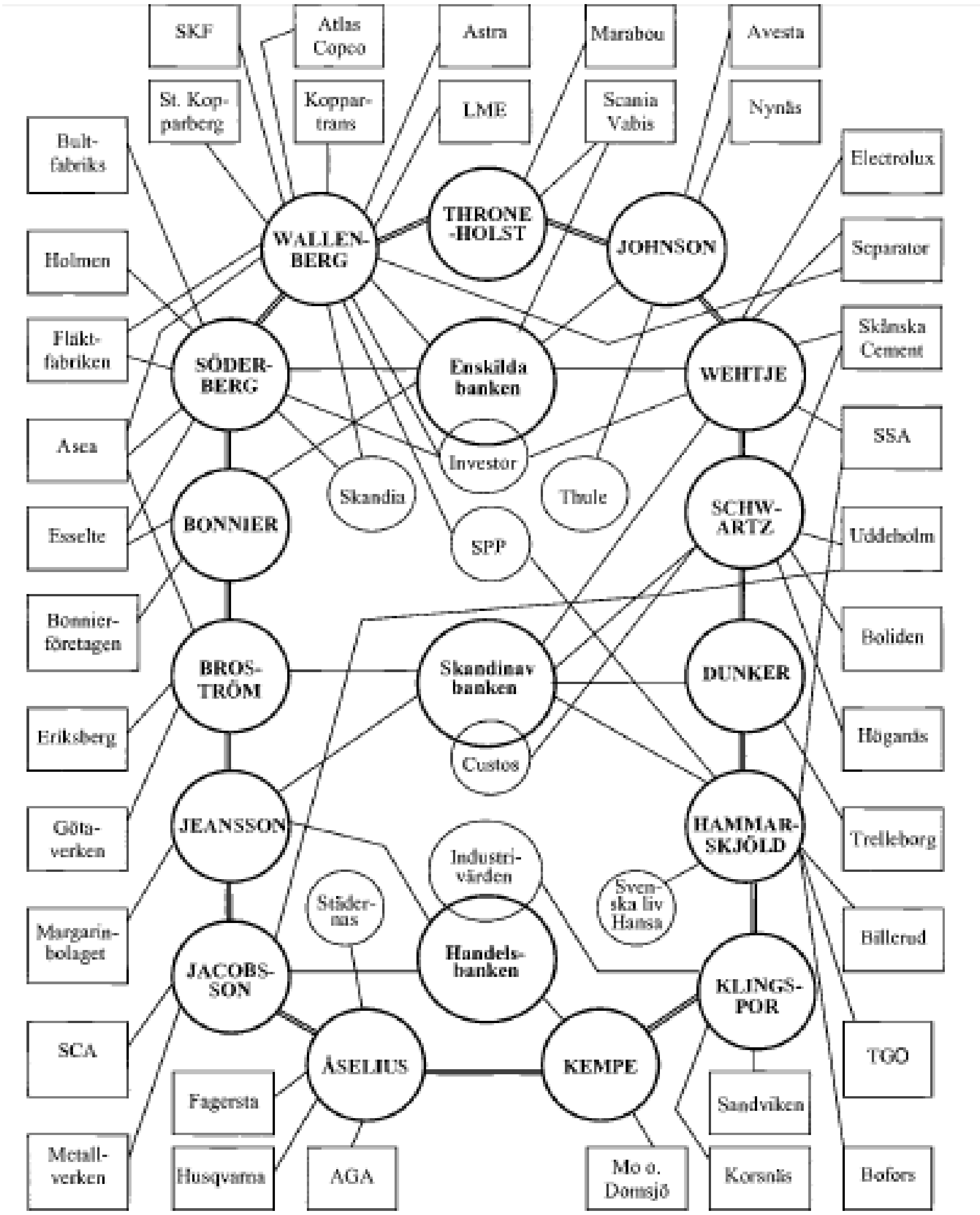

Figure 27. Fifteen wealthy dominated families in Sweden in 1960
Source: Hermansson (1965, p. 289).

It is not surprising to notice a decline in household and individuals' participation in stock markets since 1980s. As it is evident in Figure 28, the percentage of shares held by households has been decreasing in Stockholm Stock market since 1984 (Swedish Financial Supervisory Authority, 2013).

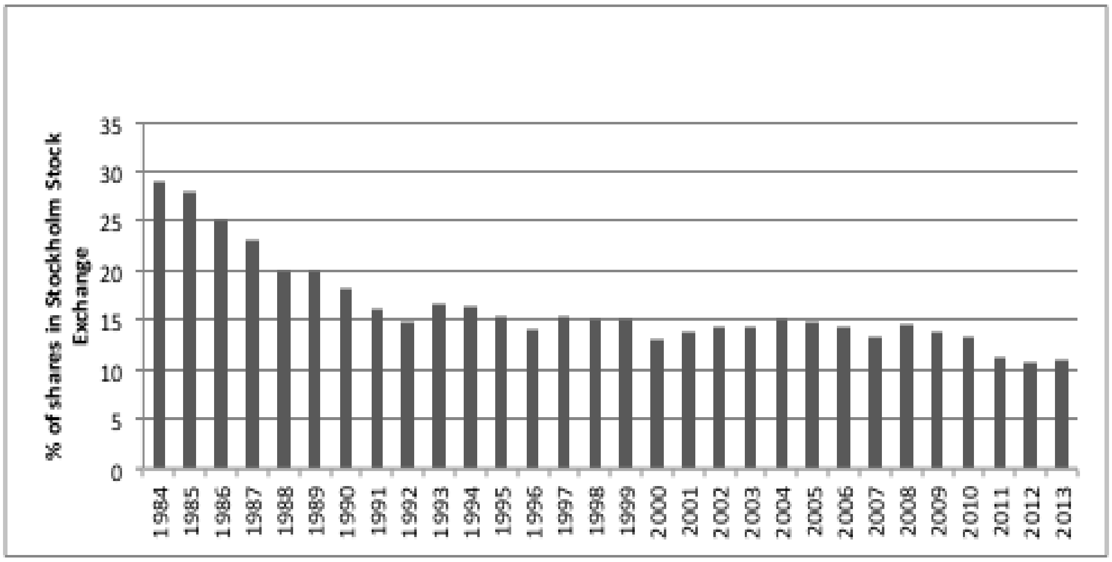

Figure 28. Amount of shares listed in Stockholm Stock Exchange held by households from 1984 to June 2013
Source: Swedish Financial Supervisory Authority (2013)

4.1.2 Phase 2 (1985-)

The most significant changes in foreign investment regulations were applied in 1990s in Sweden. In phase 1, according to bylaws, foreign investors, were not able to hold more than a certain percentage of Swedish stocks. Therefore, numbers of shares held by them were not remarkable. However, in phase 2, restrictions were eliminated from foreign ownership and other investors began to trade in the Swedish stock market. In addition, the tax system reformed as well. However, there were still heavy tax burdens on the Swedish investors relative to foreigners. Table 5, using the tax code 2001, demonstrates the tax rates associated to different categories of ownership in Sweden. The amount of investment is identical and is equal to 10,000 SEK and dividends are paid as 10% return on the investment. It is obvious that citizen households and individuals are subjected to the heavier level of tax relative to the foreign investors. Swedish Individuals are obliged to pay full wealth tax on 80% of

Table 5. Dividends taxation for different types of ownership

	Swedish household	Swedish Pension Fund	Swedish Foundation	Foreign Investment Fund
Corporate tax	280	280	280	280
Income tax	216	90	0	0
Wealth tax	120	0	0	0
Net return	384	630	720	720
Tax rate(%)	62	37	28	28

Source: Henrekson (2003)

the value of the shares they hold. However, the shares held by a foreign investor are not subjected to the wealth tax and the dividends are taxed only at the corporation level. As a result, with the same amount of investment, a Swedish citizens' rate of return would be almost half of those for the foreign individuals. That is why foreign investors have increased remarkably their participation in the Swedish stock exchange in phase 2. Many takeovers have happened since that time. Some large firms merged with foreign corporations. In addition, globalization as a worldwide phenomenon greatly influenced the ownership structure in Sweden so that most of the shares in this country are held by foreigners. On the contrary, the households' savings are relatively low (Henrekson, 2003). In Figure 29, it is clear that the foreign ownership in Swedish stock exchange market was very low and about 7 % in phase 1. However, the trend changed when restrictions eliminated in 1990s for foreign participation in the market. Then, globalization maintained the increasing trend so that in June 2013; almost 40% of the listed shares in Stockholm Stock exchange are owned by foreigners (Swedish Financial Supervisory Authority, 2013).

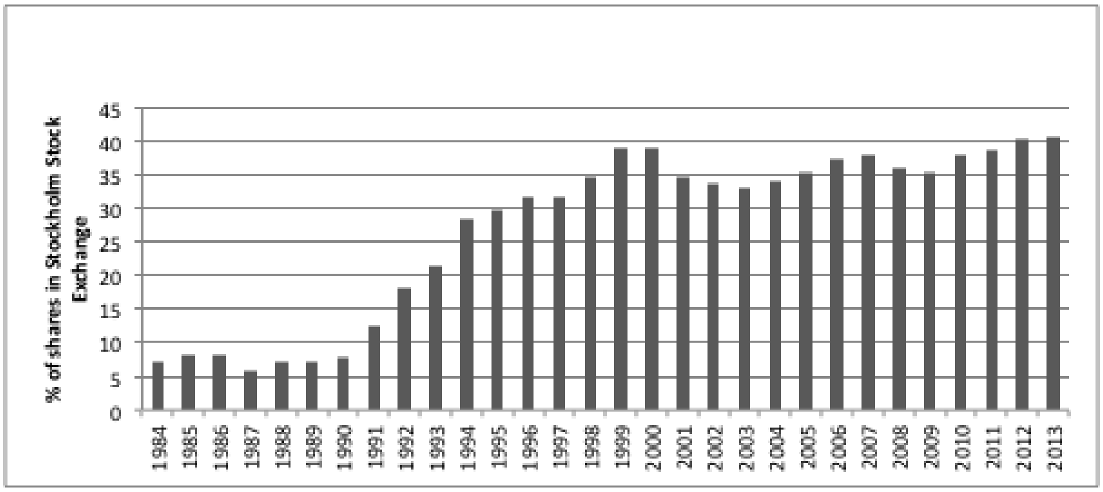

Figure 29. The percentage of shares held by foreign investors in Sweden from 1984 to June 2013
Source: Swedish Financial Supervisory Authority (2013)

4.2 The ownership structure of listed companies in Swedish market (2013)

Regarding the report published by Swedish Financial Supervisory Authority, the value shares of listed companies in the Swedish market was 4.272 billion SEK equal to 484.6 billion Euros in June 2013. Stockholm Stock market is considered as the main securities trading market in Sweden which was established in 1863.In order to attract for investors from other countries, this market joint a group namely NOREX in 1997. NOREX or Nordic Exchange also includes securities of other Nordic countries such as Denmark, Norway and Iceland. In 1998, it merged with the OMX, which is now part of the NASDAQ OMX group since 2008.Nasdaq OMX is known as the world's biggest exchange delivering financial services. It contains almost 3.500 listed companies (NASDAQ Group, 2013). Figure 30 illustrates the ownership structure of shares in the Swedish stock market. As it is mentioned before, more than 40 % of the shares in the markets are held by foreign investors. However, their controlling power on the firms are not strong. Shares with high voting powers are not traded publicly and they are in hands of few dominating shareholders such as wealthy families or the corporations' founders.

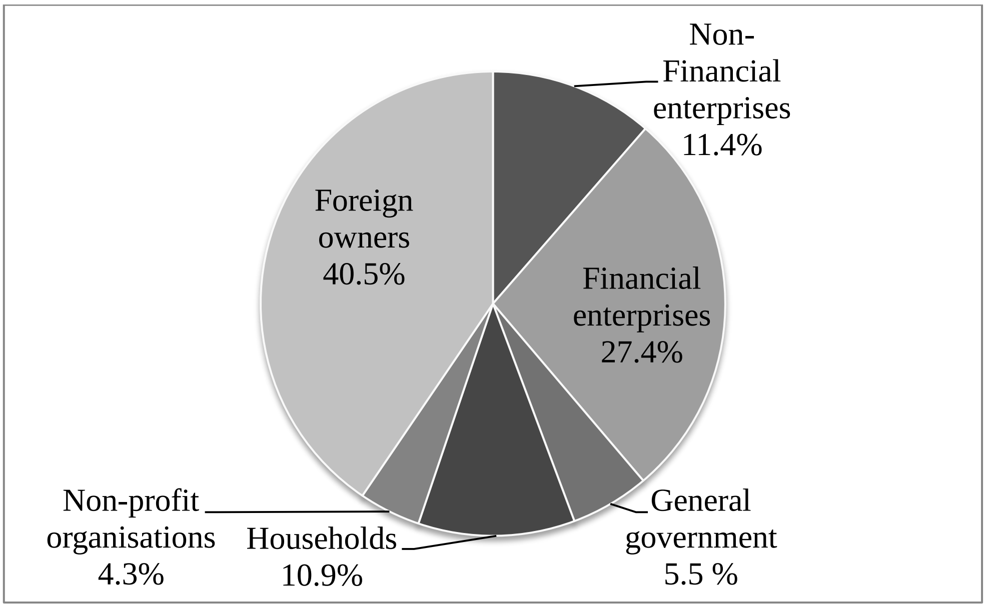

Figure 30. The Ownership structure In Swedish market in June 2013
Source: Swedish Financial Supervisory Authority (2013)

US and UK with total share value of 29.9% and 23% of the foreign ownership relatively are considered as the main investors in Sweden. Table 6 demonstrates the proportion of foreign investments in Swedish market per different group of countries. Note that all numbers are presented in million SEK and some countries could be part of more than one group. Regarding the table, it is clear that countries in continental Europe and North America relatively has a considerable participation in Swedish stock market. Finland among the Nordic countries majorly holds 8.7% of foreign ownership of Swedish shares. The interesting point about the Table 6 is that in Dec 2008, almost all countries halved their proportion of investments in Sweden as a consequence of subprime financial crisis in that year.

Table 6. Foreign ownership in Sweden per group of countries

Country Group	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	June 2013
EU Countries	867,003	853,898	465,600	684,433	887,468	756,774	868,291	920,284
North-America	470,870	416,252	210,784	300,857	454,390	386,086	486,215	526,757
Europe Outside EU	105,995	91,289	50675	110,600	106,730	80,127	95,194	103,249
Nordic countries	227,670	249,092	135,887	255,293	242,283	191,748	211,119	240,340
Asia incl Middle East	29,099	29,845	19,848	34,575	35,154	29,799	32,350	32,287

Source: Swedish Financial Supervisory Authority (2013)

Large proportion of shares is owned by financial enterprises like banks and pension funds and nonfinancial enterprises such as holding and investment companies in Sweden. Apparently, the taxation system in Sweden favors institutional ownership. That is why big corporations and financial institutions have a noticeable participation in the stock market.

On the contrary, Swedish individuals and households ownership is relatively very low equal to 10.9 %. This number has slightly increased from last year. That shows a growth in individuals' wealth and savings (Swedish Financial Supervisory Authority, 2013). A minor proportion of listed shares are belonged to the non-profit organizations in Sweden such as charities and humanitarian foundations. The public sector or the government does not play a significant role in owning the shares in the market. Sweden is one of the countries of continental Europe that had the lowest deficit and debt in 2010 (Statskontoret, 2011). The general government has reduced its expenditures on the stock market. As an example, we can refer to the fact in September 2013 when 19.5 % of Nordea Bank shares held by government, were sold (Nordea bank, 2013).

As we mentioned before, regulations and the tax system of Sweden are considered as the most important issues that helped wealthy families to accumulate more wealth and form their large business groups. The ownership structure in Sweden as anywhere else has been affected by globalization. However, the level of ownership concentration in this country is still high in which families are accounted as the controlling shareholders in large corporations.

OMX Stockholm 30 index is defined as the market-weighted price index consisting of 30 large Swedish corporations that are actively traded in the market. These firms are represented in Table 7. We investigated the ownership structure of listed firms in this index. As it is demonstrated in the table, a high percentage of the firms are controlled by wealthy Swedish families. Most corporations do not offer the A type shares to the public that could help major shareholders to avoid takeovers and maintain the control of the firm.

Table 7. Controlling shareholders in OMX Stockholm 30 index

Company and Class of Shares	Area	Controlling Shareholder
ABB Ltd	Production	Wallenberg Family + Foreign investors
Alfa Laval	Production	Widely held
Assa Abloy B	Production	Douglas Family
Atlas Copco A	Production	Wallenberg Family
Atlas Copco B	Production	Wallenberg Family
AstraZeneca	Pharmacy	Wallenberg Family
Boliden	Metal Working	AMF Insurance and Funds
Electrolux B	Production	Wallenberg Family
Ericsson B	Telecommunications	Wallenberg Family
Getinge B	Medical Equipment	Carl Bennet
H&M B	Retailing	Stefan Persson and family
Investor B	Banking and Finance	Wallenberg Family
Lundin Petroleum	Oil Processing	Lundin Family
Modern Times Group B	Media	Stenbeck Family
Nordea Bank	Banking and Finance	Sampo Plc
Nokia Oyj	Telecommunications	widely held
Sandvik	Production	Lundbergs Family
SCA B	Paper Production	Lundbergs Family
Scania B	Car industry	Porsche Family
SEB A	Banking and Finance	Wallenberg Family
Securitas B	Secuirity	Douglas Family
Sv. Handelsbanken B	Banking and Finance	Lundbergs Family
Skanska B	Construction	Lundbergs Family
SKF B	Production	Wallenberg Family
SSAB A	Metal Working	Lundbergs Family
Swedbank A	Banking and Finance	Lundbergs Family
Swedish match	Tabaco’s Production	Morgan Stanly investment Ltd
Tele2 B	Telecommunications	Stenbeck Family
Teliasonera	Telecommunications	Swedish and Finnish states
Volvo B	Car Industry	Lundbergs Family

Source: Sharifi (2013)

4.3 Control Enhancing Mechanisms in Sweden

Although more than 40 % of the listed (traded or free float) shares in Swedish market are owned by foreign investors, the control power of the firms is still in hands of Swedish block holders. As it is mentioned before, the ownership structure in Sweden is concentrated. Most large firms are controlled by wealthy families who frequently apply control-enhancing mechanisms in order to maintain their control on the corporation. Different CEMs are widely used in large corporations in Sweden. Sterling and Shearman (2006) have done researches on the presence of CEMs in this country. They have examined Swedish companies that are listed in the Stockholm Stock Exchange. The results are illustrated in Figure 31. 35% of the firms do not apply CEMs however; presence of them is very common in large companies so that 80 % of them use 1 or more mechanisms (European commission,Shearman and Sterling, 2006).

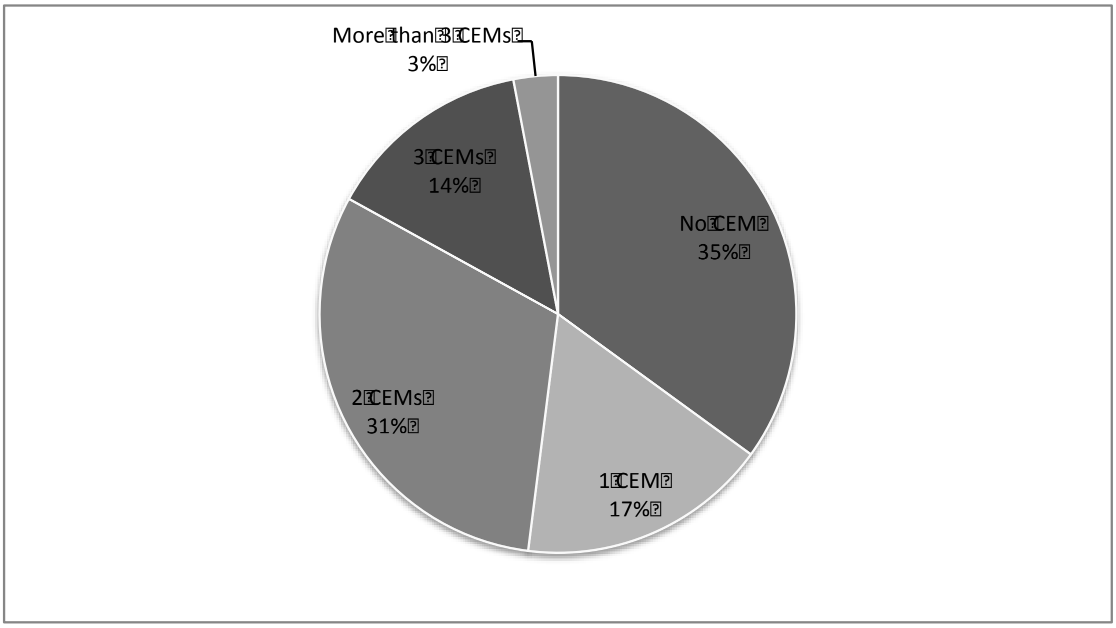

Figure 31. Presence of CEMs in Swedish firms
Source: European commission and Shearman and Sterling (2006)

There are evidence of using multiple voting rights shares, pyramid structure, cross shareholding, the voting right ceiling and the shareholders' agreement in this country.

4.3.1 Multiple Voting Shares in Swedish Companies

More than 50% of the Swedish companies examined by Shearman and Sterling, use dual class shares in order to increase the control power of specific shareholders in the firms. In most cases, the corporation issues two types of shares namely A and B with an equal par value. 10 voting rights are assigned to the A class shares. However, B class shares include only one voting right which are presented to the public. Therefore, by means of A class shares, the executives or the founders of the companies, could have the dominated controlling power on the firm without allocating too much stake on it.

4.3.2 Pyramid Structure in Swedish Companies

Pyramid structure is one of the CEMs that is widely applied by wealthy Swedish families within the firms. Wallenberg and Stenbeck are wealthy Swedish families that have formed their business by using the pyramid structure. They also apply other CEMs such as dual class shares and cross shareholding. The following chapter examines these family businesses in detail.

4.3.3 Voting Right Ceiling in Swedish Companies

Voting right ceiling is not largely used in Sweden. Only one corporation among Sterling and Shearman Sample companies, apply this control enhancing mechanism. Svenska Handelsbanken is one of the major banks in Sweden that was established in 1871.It has 700 branches locating in 24 countries. Nowadays more than 10,000 experts work in its branches around the world (Handelsbanken, 2013). This bank applies 10% voting right ceiling (European commission,Shearman and Sterling, 2006).

4.3.4 Cross-shareholding in Swedish Csompanies

Cross-shareholding after dual class shares and the pyramid structure, is considered as one of the important CEMs that is used in Swedish companies. There is evidence of cross-shareholding between the Investor AB and Skandinaviska Enskilda Banken (SEB Bank). Investor AB is an investment company established and controlled by the Wallenberg family. It has different stakes with strong controlling power in leading corporations in Sweden. SEB is the first private bank in Sweden that was founded by Oscar Wallenberg in 1856. Today, it is considered as the leading large corporation and investment bank in Nordic countries. Investor AB owns 20.8 % of the shares in SEB bank, which represents 20.9 % of the voting rights. SEB holds 5.4 % of shares in Investor AB with a controlling power of 4 %.

4.3.5 Shareholder Agreements in Swedish Companies

Regarding Sterling and Shearman (2006), only two Swedish companies apply this mechanism in order to clarify the ownership structure and determine the shareholders' rights in the firm. As an example, we could refer to the shareholder agreements between the Finnish state and Swedish state that are considered as two main shareholders of Teliasonra operating in telecommunication sector. Majority of shares owned by the Swedish state (45%) and Finnish state holds 13.2% of the stocks (European commission,Shearman and Sterling, 2006).

Chapter 5

CASE STUDY OF THREE LARGE FAMILY-OWNED BUSINESS GROUPS IN SWEDEN

As it is mentioned in previous chapters, we found out that the ownership structure of Swedish corporations is highly concentrated by few shareholders who strongly control the firms by means of control enhancing mechanisms. In this part of study, we are going to investigate three of these Swedish wealthy families as case studies and examine their level of control on their businesses. One of the most popular family-owned businesses belongs to the Wallenberg family.

5.1 Wallenberg Family and Investor AB

Wallenberg is known as the prominent rich Swedish banking family. The family members have worked as bankers, politicians and manufacturers since 1861. Nowadays, the fourth generation of this family is leading their businesses by their investment company, namely Investor AB that was established in 1961. They have a tight relationship with the Kingdom of Sweden. Wallenberg Sphere is an international bank and industry group that is controlled through Investor AB, which is considered as the biggest family owned business in Europe. In 1990, the Wallenberg sphere was projected to implicitly control a third of the national GDP (Burton, 1990). Figure 32 illustrates Wallenberg business group in 1996. Use of the pyramid structure is apparent in this figure. The voting power rights are mentioned in Figure 32 and the ownership rights are presented in parentheses. As a result of using dual class shares, a separation between the cash flow right and voting rights is evident in each layer of the pyramid.

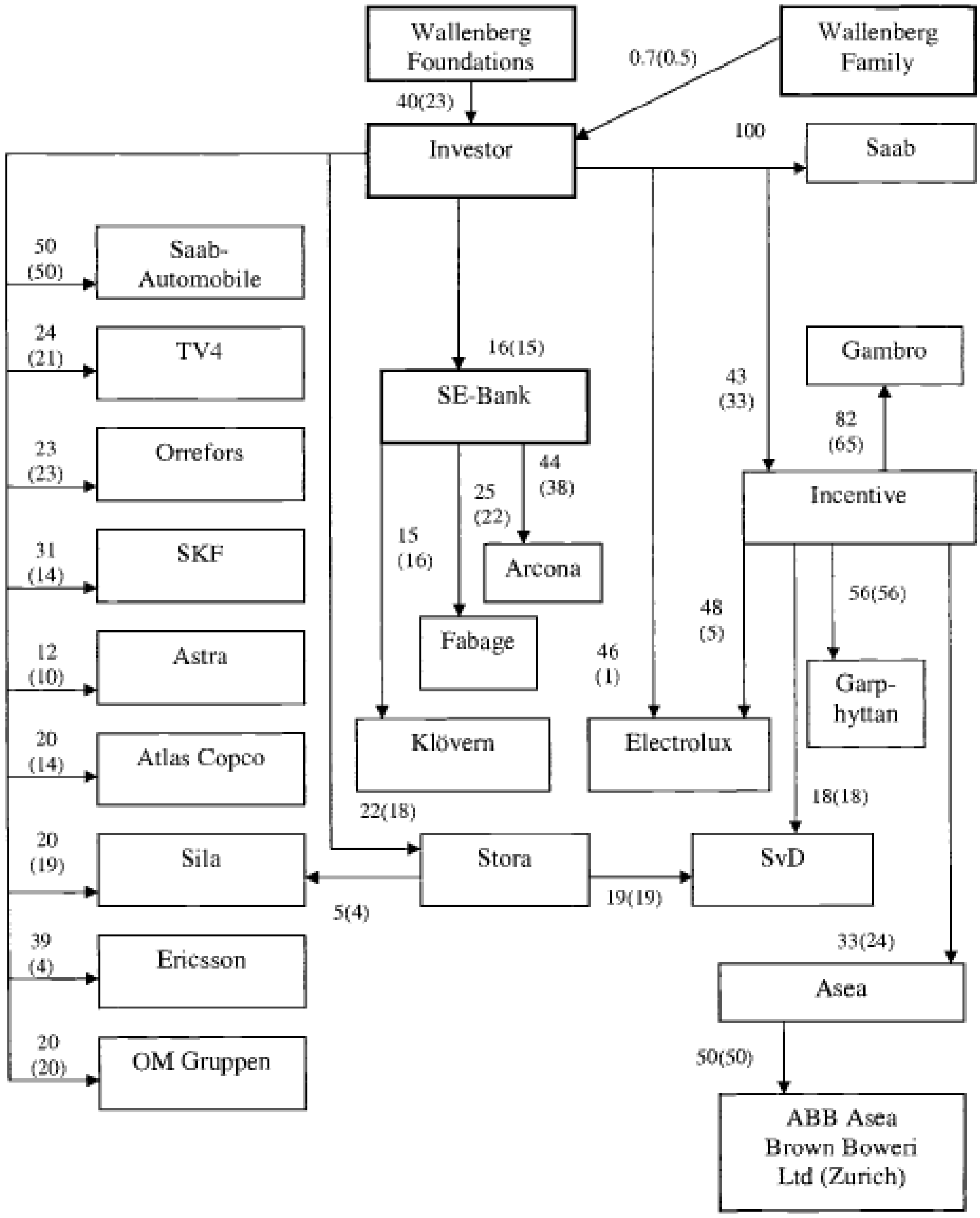

Figure 32. Wallenberg Business group
Source: Burton (1990)

Investor AB was founded by Wallenberg family as the part of Stockholms Enskilda Bank (SEB) in 1961. However it developed gradually and has become such a big international investment corporation in Nordic countries. Investor AB categorizes its business activities by two main parts. The first part is named as the core investments and the second part is referred to the financial investments. The core investment consists of holding listed companies in which the Investor AB is considered as the major and significant shareholder and managing the subsidiaries.

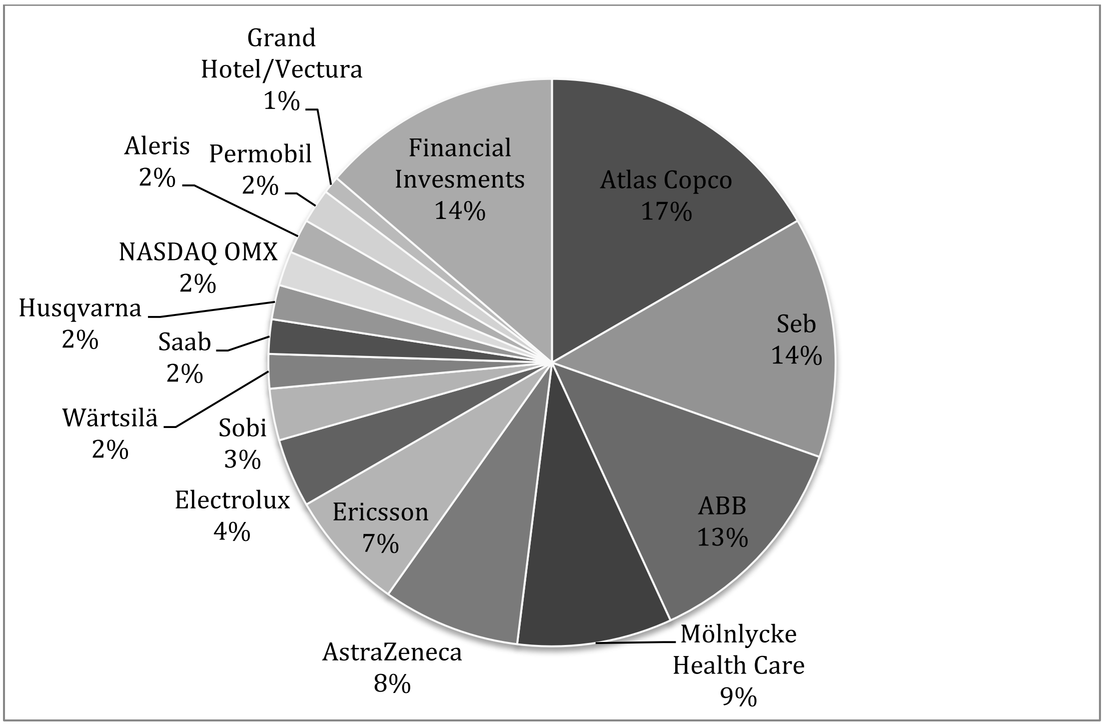

Figure 33. Investments of Investor AB
Source: The website of Investor AB (2012)

As it is demonstrated in Figure 33, 86% of investors' total assets have been allocated to the core investments and the rest is distributed to the financial investments (Investor AB, 2013). The major part of the Investor's assets goes to the Atlas Copco, SEB and ABB. Corporations included in core investments are as follows:

Atlas Copco

It is known as one of the leading industrial companies with more than 39,800 employees. It provides mining equipment, compressors, expanders, air healing and assembly systems. By holding 16.8% of the shares, Investor AB is considered as the largest shareholder of this company. However, its controlling power is equal to 22.3%. The Wallenberg family has also captured three out of nine seats in the board of directors (Atlas Copco company, 2013).

SEB

SEB is the first private bank in Sweden that was founded by Oscar Wallenberg in 1856. Today, it is considered as the leading large corporation and investment bank in Nordic countries. Investor AB holds 20.8 % of the bank's shares and has the voting power of 20.9 %. Two important seats in board of directors of SEB have been captured by Investor AB. Jacob Wallenberg works as the vice-chairman and Marcus Wallenberg is known as the chairman of the SEB (Investor AB, 2013).

ABB

ABB, with more than 150,000 employees, is considered as one of the biggest corporations around the world, operating in power and automation industries of more than 100 countries. It was established in 1988 in Switzerland. However, its shares are listed in New York, Zurich and Sweden stock exchanges (ABB Corporation, 2013). Investor AB owns 7.9 % of the cash flow stake and voting rights in ABB plus a seat in the board of directors that belongs to the Jacob Wallenberg (Investor AB, 2013).

AstraZeneca

In 1999, Astra AB in Sweden merged with a company which was located in UK namely Zeneca Group PLC. They formed together AstraZeneca corporation, which operates in the pharmaceutical industry. It is known as one the most innovative companies in this industry. It delivers its product to more than 100 countries around the world as well as conducting many research and development projects (AstraZeneca, 2013). Investors have been trading the AstraZeneca shares in the London, New York and Stockholm Stock exchanges. The ownership of the Investor AB is equal to 4.1% of the cash flow stake and voting rights of AstraZeneca. In addition, Marcus Wallenberg works as a board member in this corporation (Investor AB, 2013).

Ericsson

Ericsson is a well-known corporation, which delivers services and products in the telecommunication and mobile industries. There are more than 100,000 people who work in this corporation in 180 different countries. Ericsson’s headquarter is located in Stockholm and the shares of this company are listed in the Stockholm stock exchange. Investor AB not only holds 5.3% of the cash flow stake and 21.4% of voting rights in Ericsson but also it has captured 2 out of 12 seats in the board of directors. Jacob Wallenberg (Vice Chairman) and Börje Ekholm are the board members that are appointed by Investor AB (Investor AB, 2013).

Electrolux

This company was established in Sweden in 1901 in an attempt to reach an old dream of producing an electronic vacuum cleaner. Nowadays, it is considered as the biggest manufacturer of home appliances around the world, which widely distributes its products in 180 countries (Electrolux Group, 2013). Marcus Wallenberg works as the chairman of the Electrolux. Additionally, Investor AB holds 15.5% of the shares and 29.9 % of the voting rights in Electrolux that has been resulted from using dual class shares (Investor AB, 2013).

Wärtsilä

Investor AB has recently (in 2012) invested in Wärtsilä which is a Finnish corporation providing innovative technologies that aids to enhance the efficiencies of the vessels and power plants by maximizing their economic performances (Wärtsilä corporation, 2013).It was established in 1834 and today, its branches are operating in more than 70 countries around the world. Investor AB owns 8.8% of the cash flow stake and the voting rights in this corporation. Nonetheless, it has not captured any seats in the board of directors (Investor AB, 2013).

SAAB

It is considered as one of the biggest suppliers of the military defense systems and security solutions around the world. It was established in 1937 when Sweden as a neutral country decided to improve the national security against conflicts that existed in the continental Europe. Nowadays with more than 13,000 personnel, it plays an important role in the military industries' markets in US, Australia, South Africa and Europe (SAAB corporation, 2013). Multiple voting right shares is used in SAAB as the control enhancing mechanism. Therefore, by owning 30% of the shares, Investor has 39.5% of the voting rights in SAAB, and it has captured 3 out of ten seats in board of directors, which are filled by to the Marcus Wallenberg (Chairman), Johan Forssell, and Lena Treschow Torell (Investor AB, 2013).

Sobi

Sobi is a leading international corporation that conducts researches and studies on the rare diseases in the healthcare industry in Sweden. Investor AB has started investing in this corporation since 2009. Using dual class shares in this company, gives Investor AB the opportunity to hold 40.5% of the voting rights by owning 39.9% of shares in Sobi. Lennart Johansson and Helena Saxon are the Investors' representatives working as the board members in Sobi consisting nine members (Investor AB, 2013).

Husqvarna

It is one of the major suppliers of the outdoor power product in the world. It delivers its products and services in construction and stone industries. Multiple voting right shares is one of the CEMs that is used in this company in order to increase the shareholders control power. That is why; Investor AB has 30.3% of the voting power by holding 16.8% of the capital stake in Husqvarna. In addition, it has appointed

Tom Johnstone and Daniel Nodhäll as its representatives in the board of directors consisting 10 members (Investor AB, 2013).

NASDAQ OMX

Investor AB has also invested in NASDAQ OMX, the world's principal exchange market, that delivers its services to the publicly listed companies in six continents. 11.8% of the ownership and voting rights are held by Investor AB (Investor AB, 2013).

Investor AB is also operating other companies as subsidiaries. These subsidiaries are as follows:

Mölnlycke Health Care and Aleris

Mölnlycke Health Care and Aleris are two single corporations that are operated by Investor AB, which owns 98% of capital stake in this corporation. They are considered as the innovative supplier of the medical and wound care products (Investor AB, 2013).

Grand Hôtel

100% of the ownership of this five star hotel is held by Investor AB. This hotel was built in 1874 and situated in the center of the Sweden's capital. Today it is considered as the finest place for the foreign diplomats and politicians who have to stay in Stockholm (Investor AB, 2013).

Vectura

Investor AB in an attempt to enhance the economic efficiency, merged its real estates assets into one single company namely Vectura. 100% of its shares are held by Investor AB (Investor AB, 2013).

Figure 34 represents the Wallenberg Sphere that consists of the core investments controlled by the Wallenberg holding company, Investor AB. OR refers to the Ownership or cash flow rights and VR represents the voting rights. As it is obvious in the figure, the Wallenberg foundations is the major shareholder of the Investor AB. Wallenberg foundations consists of a group of foundations which are funded by the Wallenberg family members. Therefore, Wallenberg family with 50% of the voting rights could strongly control Investor AB. However, this family has not that much capital stake in the firm. *Dual class shares* by means of control enhancing mechanism, aids them to have the majority of control rights with only having 23.3% of the shares of Investor AB.

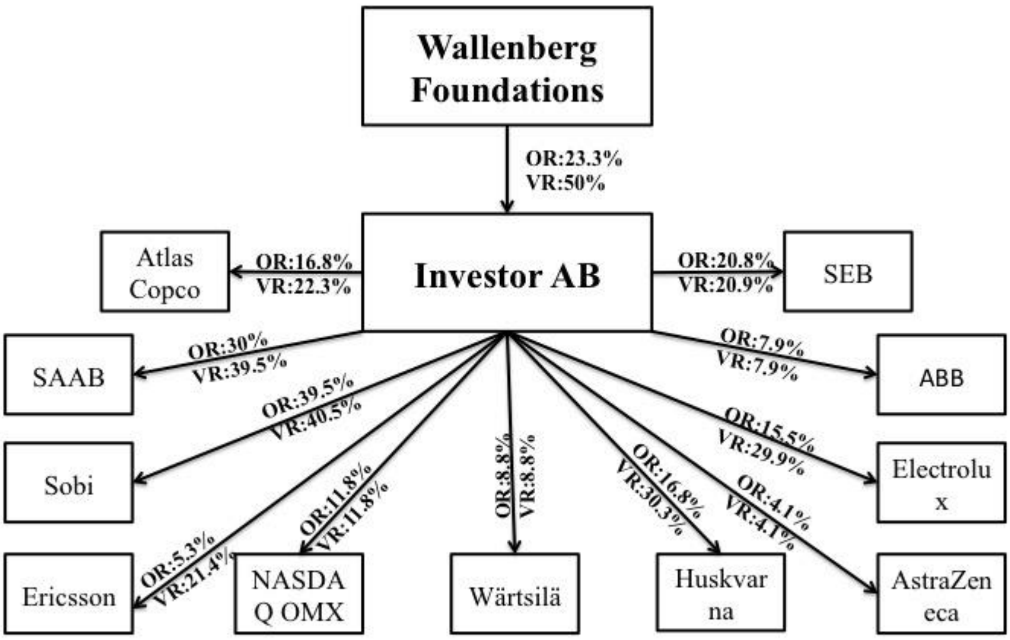

Figure 34. The Wallenberg Sphere
Source: Sharifi (2013)

There are more evidence of using dual class shares in Figure 34 that has led to the separation between the ownership rights and voting rights. In addition, by forming a pyramid structure, Wallenberg could also have controlling power on the other companies that are owned by Investor AB. For instance, Wallenberg foundation has 9.29% indirect stake of Sobi. Using the weakest link method, its controlling right is equal to 40.5%. Therefore, Wallenberg family indirectly controls all core investments of Investor AB without contributing the majority of capital stake in them.

Moreover, CEMs are more widely used in Wallenberg business group. Figure 35 demonstrates a more complicated scheme of the pyramid structure that existed in 2006 between 13 major companies held by Investor AB and SHB Spheres. However, this structure has been changed so far. Investor AB has broadened its investments and it also divested investing in Scania in 2008 (Investor AB, 2013). Regarding Figure 35, there is a cross shareholding between Investor AB and SEB. In addition, SHB uses cross holding with AB Industrievaarden and there is also a circular cross shareholding between SHB and Svenska Cellulosa. The Pyramid is very large and includes MAN, Volkswagen and Porsche, which are non-Swedish corporations (European commission,Shearman and Sterling, 2006).

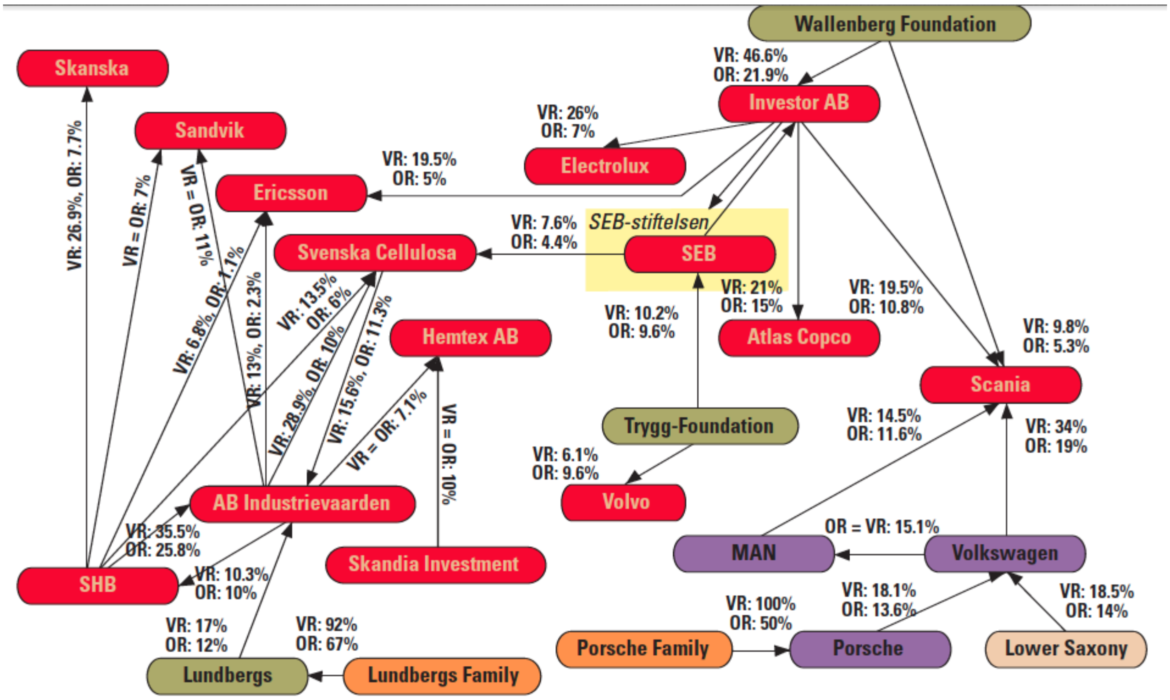

Figure 35. Pyramid structure of Investor AB and SHB Sphere
Source: European Commission, Sterling and Shearman (2006)

5.2 Stenbeck Family and Investment AB Kinnevik

Stenbeck family is known as one of the wealthy Swedish families that has a considerable control on a group of corporations through their investment company namely Investment AB Kinnevik established in 1936 by Horn and Klinsgpor. Hugo Stenbeck was their lawyer that had a significant control on the firm. He began to enhance his operating control power and finally, he purchased more shares from his clients. In this way, he became as the largest shareholder of Kinnevik. Hugo's son, John Stenbeck, changed some features of the holding firm in an attempt to convert it into a modern corporation. The focus of investments done by Kinnevik is on the media industry, Internet broadcasting, mobile and telecoms services (Wikipedia, 2013).

Kinnevik is considered as one of the large investment companies in continental Europe. Today, it has significant shareholdings in large companies and it actively participates in the firms' board of directors (Investment AB Kinnevik, 2013). As it is shown in Figure 36, current investments of Kinnevik could be categorized in four main areas that are described in detail as follows.

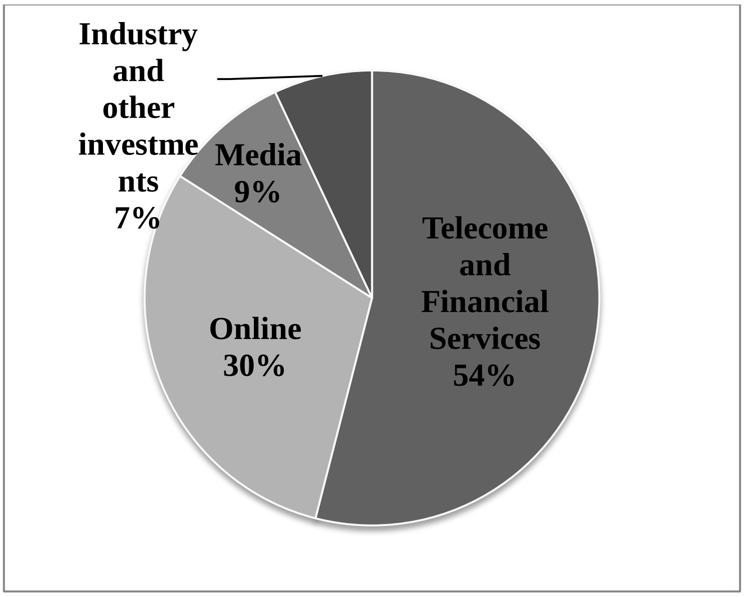

Figure 36. Kinnevik's Holdings in June 2013
Source: Kinnevik Website (2013)

The majority of Kinnevik's assets are invested in the companies that operate in Telecom and financial Industries. Kinnevik holds two major mobile companies namely Millicom and Tele2. Millicom successfully delivers its services in 15 countries of Africa and Latin America. 38% of the shares and the voting rights of Millicom are owned by Kinnevik. Tele2's markets are mainly in Scandinavian countries as well as emerging markets in Kazakhstan. Kinnevik that holds 30.4 % of the capital stake and 48% of the voting rights of Tele2 is known as its largest shareholder. Additionally, Kinnevik also invests in financial companies. Transcom, Bayout and Milvik/BIMA are three major large corporations providing financial services, which are held by Kinnevik (Investment AB Kinnevik, 2013).

30% of the total assets of the Kinnevik go to the online investments. The most special concentration is on E-commerce. A remarkable growth has been seen in the trend of E-commerce markets during recent years that origins from changes in consumers behavior. Today, more people prefer to shop online instead of spending too much time and energy in the shopping malls and markets around the world. Kinnevik has concentrated in the shoes and fashion sector of E-commerce by holding the shares of companies like Zalando and Dafiti. It also owns 23.9% of the shares of Rocket Internet, which is known as the parent company in the mentioned industry (Investment AB Kinnevik, 2013).

Kinnevik has established two major companies namely MTG and Metro, which operates in media industry. MTG or Modern Times Group is counted as one of the leading broadcasting group in the continental Europe. It provides its entertaining services in 38 countries. 20.3% of its capital stake (cash flow rights) and 48% of its voting rights are held by Kinnevik (Investment AB Kinnevik, 2013). Moreover, Metro is corporation working in the media industry by publishing newspaper. 95% of its shares are owned by Kinnevik. Metro mostly attracts young well-educated people by its interesting topics. Besides reading this newspaper is free of charge and the only source of revenue is the advertisements. That is why the number of Metro readers has reached 18 millions per day (Investment AB Kinnevik, 2013).

Kinnevik has also invested in other sectors of industry. With 24.9% of capital stake and voting rights, it is considered as the major shareholder of an agricultural company operating in Russia (Investment AB Kinnevik, 2013).

Figure 37 illustrates a schematic view of Stenbeck family holdings through their investment company; Kinnevik AB. Frequent use of dual class shares as control-enhancing mechanism resulted wide separations between the ownership and the voting rights. Additionally, the pyramid structure provides environment for the family members to increase their controlling right on their holdings without allocating too much capital stake in them (Investment AB Kinnevik, 2013). For instance, using the weakest link method, Stenbeck family has 48% voting rights in Tele2 while their indirect ownership stake is equal to 1.42% in this firm.

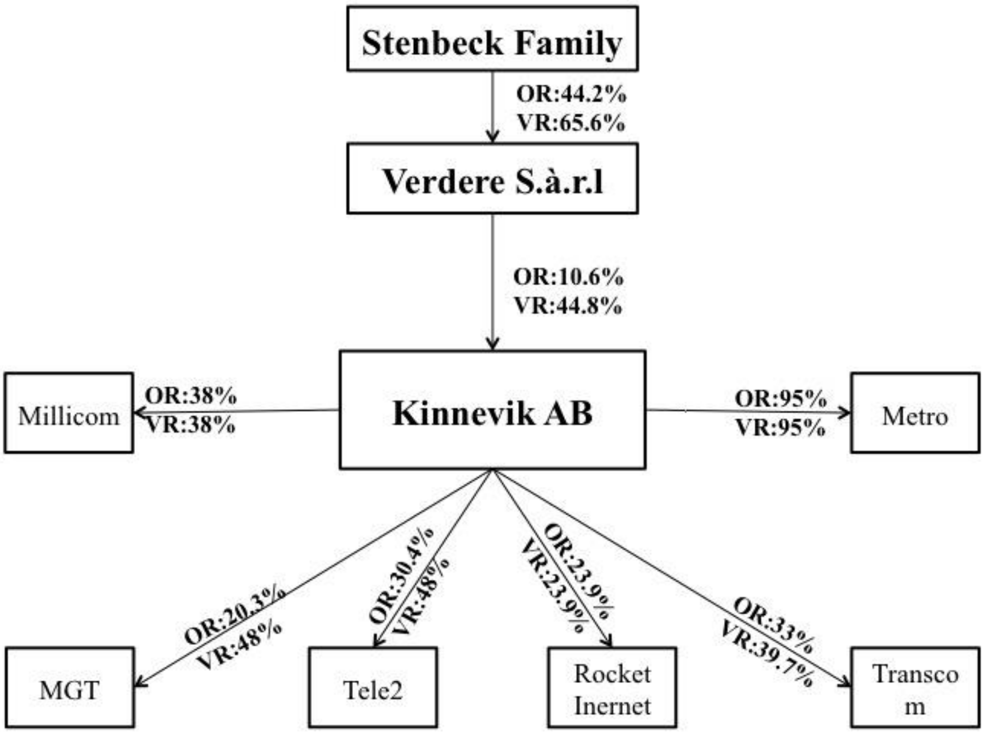

Figure 37. Stenbeck family business group
Source: Sharifi (2013)

5.3 Douglas Family and Investment AB Latour

Gustaf Douglas is a Swedish politician and businessman who was born in 1938. The Forbes magazine has considered him as the 11th richest man in Sweden. His father was a Swedish diplomat and a nobleman. Douglas family controls their business group through the investment company, namely Investment AB Latour (Forbes magazine, 2013).

This investment company was established in 1984 by Douglas family. Today, it is considered as one of the large corporations, which holds leading firms such as Assa Abloy. 77.4% of the Latour's capital stake and 79.7% of the voting rights are held by Douglas family. Gustaf's wife and his older son are also appointed as the board members in Latour. Latour's holding could be divided into three groups. First group refers to the industrial corporations, namely Hultafors Group, Latour Industries, Specma Group and Swegon, operating in four different areas that are wholly owned by Douglas family. Nowadays, 70 branches of these corporations with more than 3,700 employees are operating around the world (Investment AB Latour, 2013). The second group represents the Latour's investments portfolio. It consists of several leading firms in which Latour is considered as the largest shareholder or at least it has 10% of the voting power. Third group of holdings of Latour consists of unlisted firms such as Diamorph and Oxeon (Investment AB Latour, 2013). Table 9 demonstrates the leading firms that are held by Latour as the investments portfolio.

Table 8. Investment portfolio of Latour

Company	Area of work	Ownership (%)	Voting rights (%)
Assa Abloy	Lock and door opening	9.1	29.5
Fagerhult	Lighting group	30.9	30.9
HMS networks	Innovative communication solutions	26.7	26.7
Loomis	Secure transportation of cash	10.3	29.2
Nederman	Environmental technology manufacture	29.98	29.98
Nobia	Constructions	13.2	13.2
Securitas	Safety and security solutions	11.54	30.02
sweco	Consultant in architecture, technology and environmental industry	22.7	31.7
Tomra	Sorting and recycling	21.16	21.16

Source: Sharifi (2013)

All of these are large companies with high number of employees that compete with other international enterprises in same industries. Regarding Table 9, there is separation between the ownership rights and the cash flow rights which origins from using dual class shares. Figure 36 illustrates a schematic view of Latour's holdings. Number shows the ownership and number in parenthesis represents the percentages of voting rights. The pyramid structure gives the Douglas family the opportunity to enhance their controlling power in the firms held by their investment company Latour without allocating too much equity on them. For instance, Douglas family has 8.93% indirect stake on Securitas through Latour. However, using the weakest link method, this family could be able to control 30.02% of Securitas (Investment AB Latour, 2013).

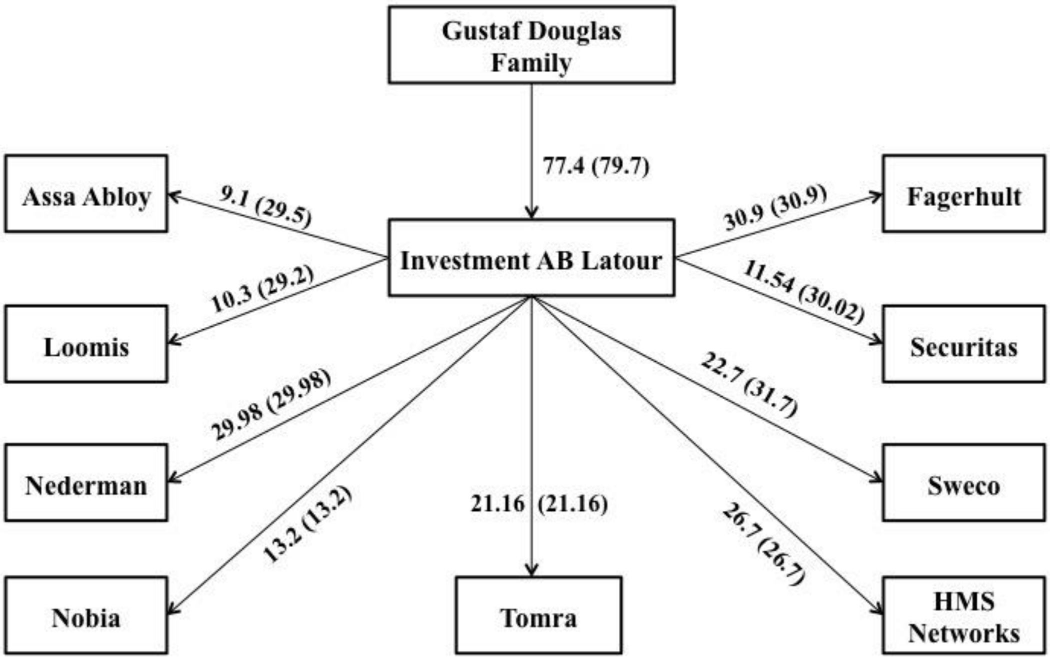

Figure 38. Investment portfolio of Investment AB Latour
Source: Sharifi (2013)

CONCLUSION

The system by which corporations are organized and managed is the corporate governance. As it is mentioned in this study, the corporate governance of firms around the world could be divided in two categories (Solomon, 2007). The first one is defined as the outsider oriented corporate governance system, mainly in UK and US. Investors are highly protected in these countries and shareholders' interest is considered more important than stakeholders' interest. Therefore, typically the ownership structure of the firms is widely held. The main conflicts in this system could arise between shareholders and managers. The second one is named as the insider oriented system by which the stakeholders' perspectives are more significant in the firm. This system of corporate governance is dominated in continental European countries. The ownership structure in these corporations is highly concentrated to one or few shareholders so conflicts may arise between the large and minority stockholders.

Germany, Italy, the Netherlands and France were four sample countries in which corporations are conducted by the insider model of corporate governance and the ownership structure is also concentrated. Shareholders are considered as the legal owners of the firms. Therefore, they could exercise their rights in order to control the company and become active in all decision-making processes within the firm. The focus of the study was on the controlling power of shareholders in the continental Europe.

In this study it is also investigated the control-enhancing mechanisms that are being used by the firms in order to leverage the voting power of specific shareholders regardless of their ownerships and capital stakes in the companies. The most common CEMs are identified as the multiple voting right shares, the pyramid structure and cross-shareholding. However applying combination of CEMs are differs between the countries. Few of them are considered illegal in some continental European countries.

The purpose of the thesis is to investigate the ownership structure of the firms in Sweden and examine the controlling mechanisms used in these firms. Sweden is a developed country with high growth in economy and welfare.

Historical events had led the Swedish model of ownership to become concentrated in the hands of few large shareholders. There are two remarkable phases in the Sweden's history after the Second World War in which influential changes have been applied on the economy of this country. Regulations and the tax system have encouraged individual investors and households to accumulate wealth. As a result, the households' savings and their participation in the stock markets have respectively decreased in recent decades. The economic policies disfavored start up small businesses whereas wealthy families who had large businesses benefited from the institutional ownership that were encouraged by the government. On the contrary, restrictions that were previously existed on foreign investments were lifted from foreign investors so they have become dominant investors in Swedish stock markets since 1990s. Therefore, it is not surprising to notice that the foreign ownership of the Swedish shares has widened in last decades.

Despite of the high proportion of foreign ownership, the control of most large Swedish firms is still in hands of their founders and wealthy families. By means of

CEMs, wealthy families could increase and maintain their controlling power in the firms without having the majority of capital stake.

Today, most of the large listed corporations in the Stockholm stock exchange in different sectors are controlled by wealthy families like Wallenberg, Stenbeck and Douglas. These families have been controlling a group of businesses through their investment companies, which holds different firms. The pyramid structure gives these families the chance to leverage their voting power on the holdings without allocating too much capital stake in them. They mostly control very large international companies in which numerous employees are involved.

Considering the stakeholders' perspective kept these firms successful meaning that investors have been happily investing in these firms without being concerned about the large shareholders' control power. Moreover, these families are concerned about the reputation and trustworthy of their operating firms. That is why they govern the corporations in line with the stakeholders and even minority shareholders' interests.

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