

Ownership and Governance of Large Firms in Finland

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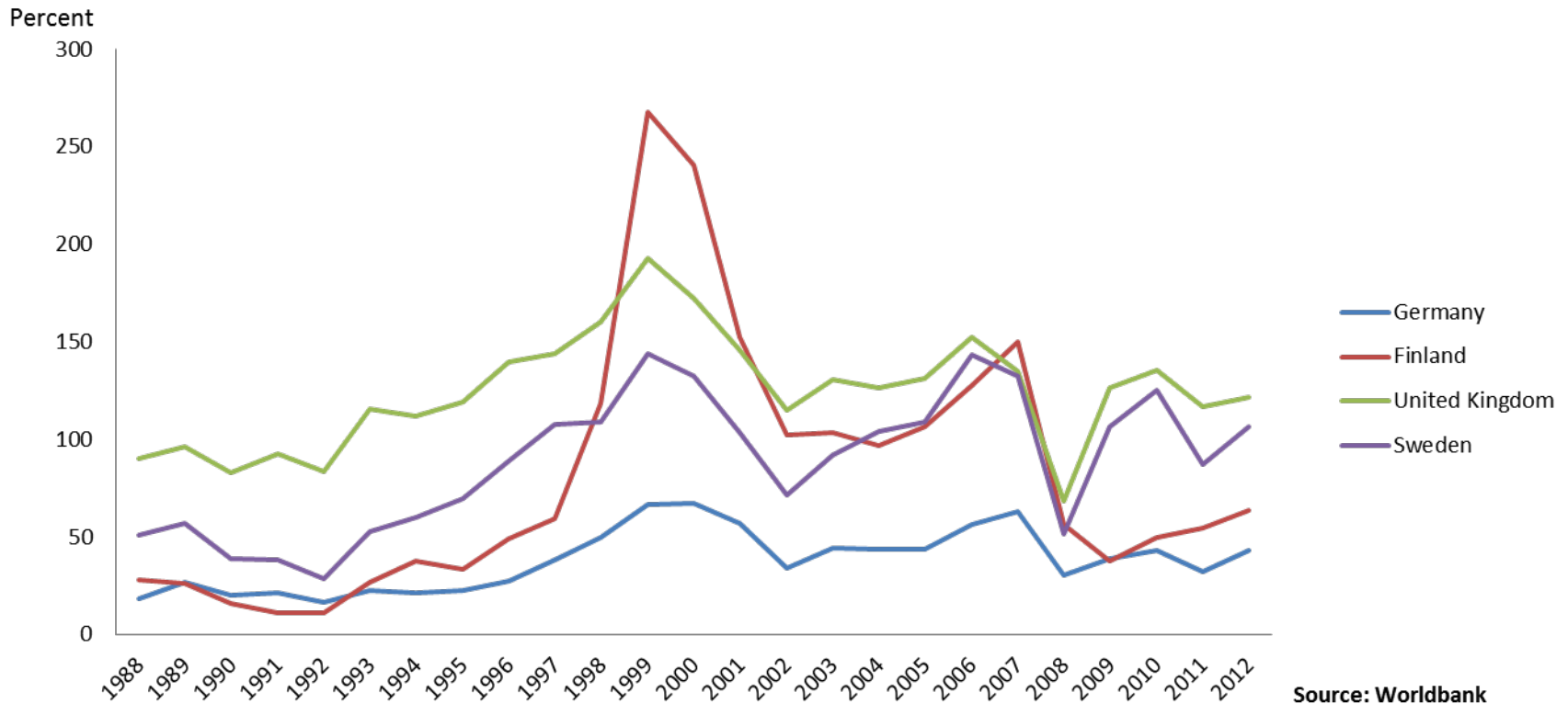
Agenda

- 1. The stock market and its role in the Finnish economy**
- 2. Ownership and Governance of listed Finnish firms**
- 3. Foreign ownership**
- 4. Finnish problems**

1. THE STOCK MARKET AND ITS ROLE IN THE FINNISH ECONOMY

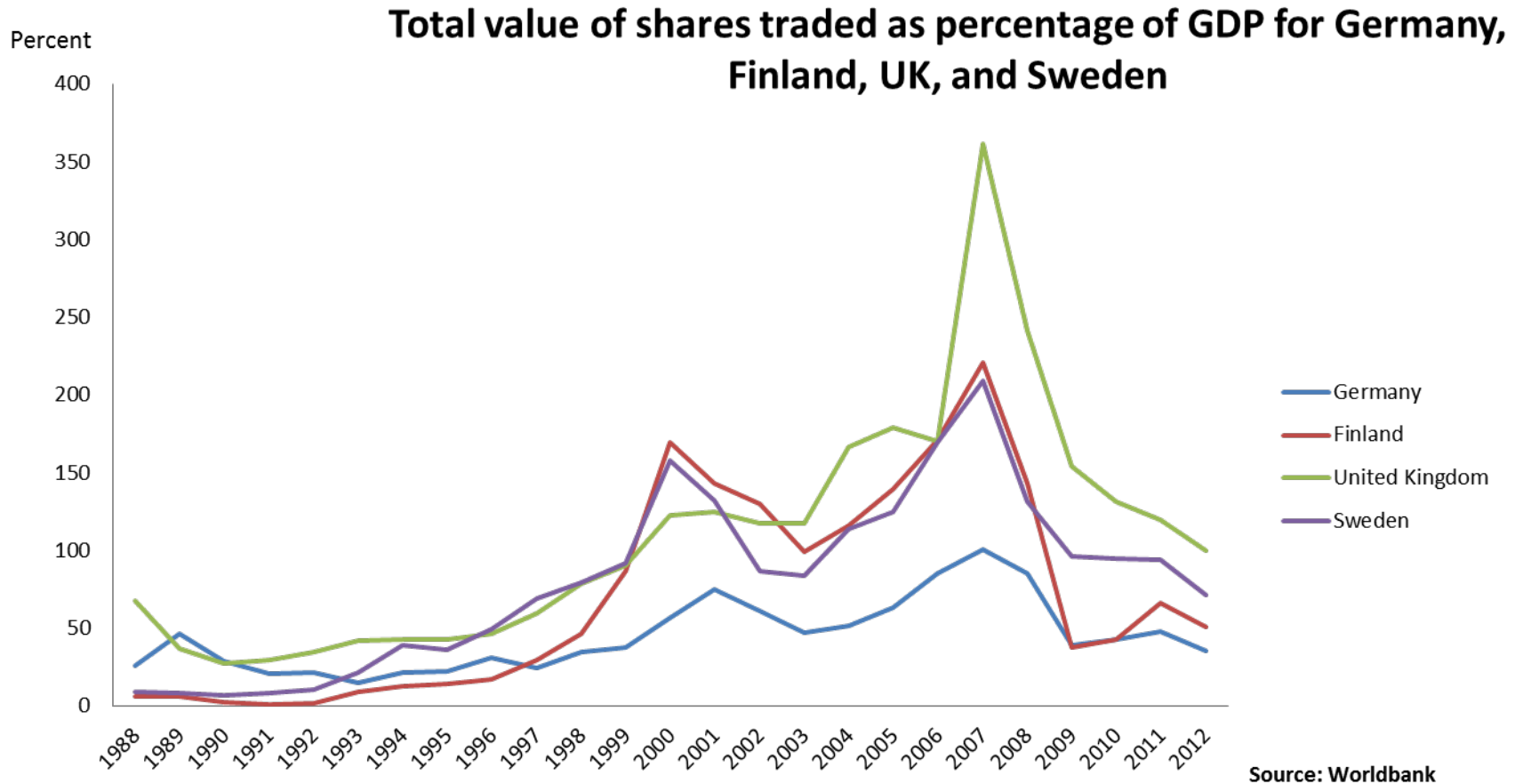
Market orientation comparison

Market capitalization of listed companies as percentage of GDP in Germany, Finland, UK, and Sweden



Source: Worldbank

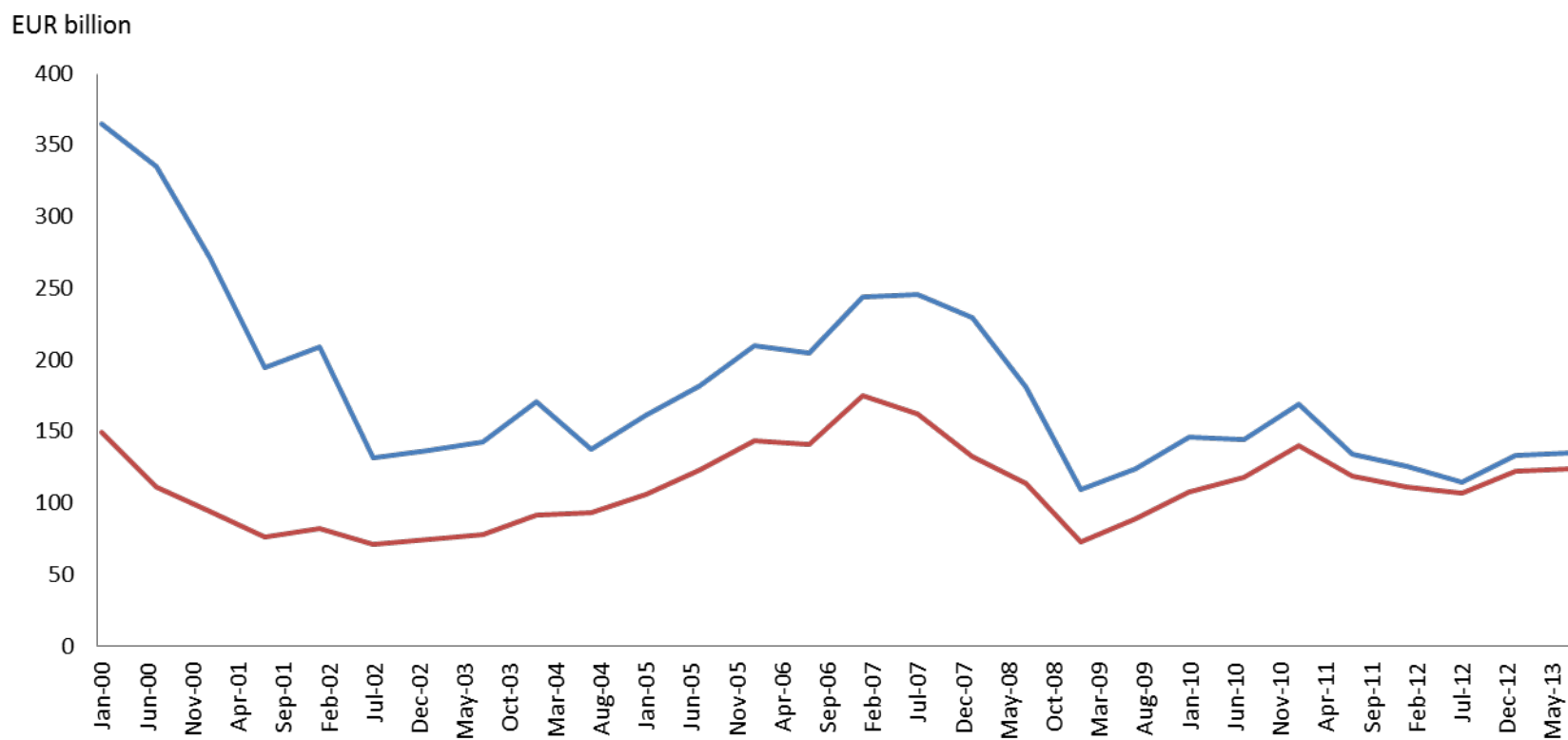
Market orientation comparison



Source: Worldbank

The shrinking stock market

Finnish stock market capitalization with and without Nokia



Source: Euroclear

2. OWNERSHIP AND GOVERNANCE OF LISTED FINNISH FIRMS

Two types of owners

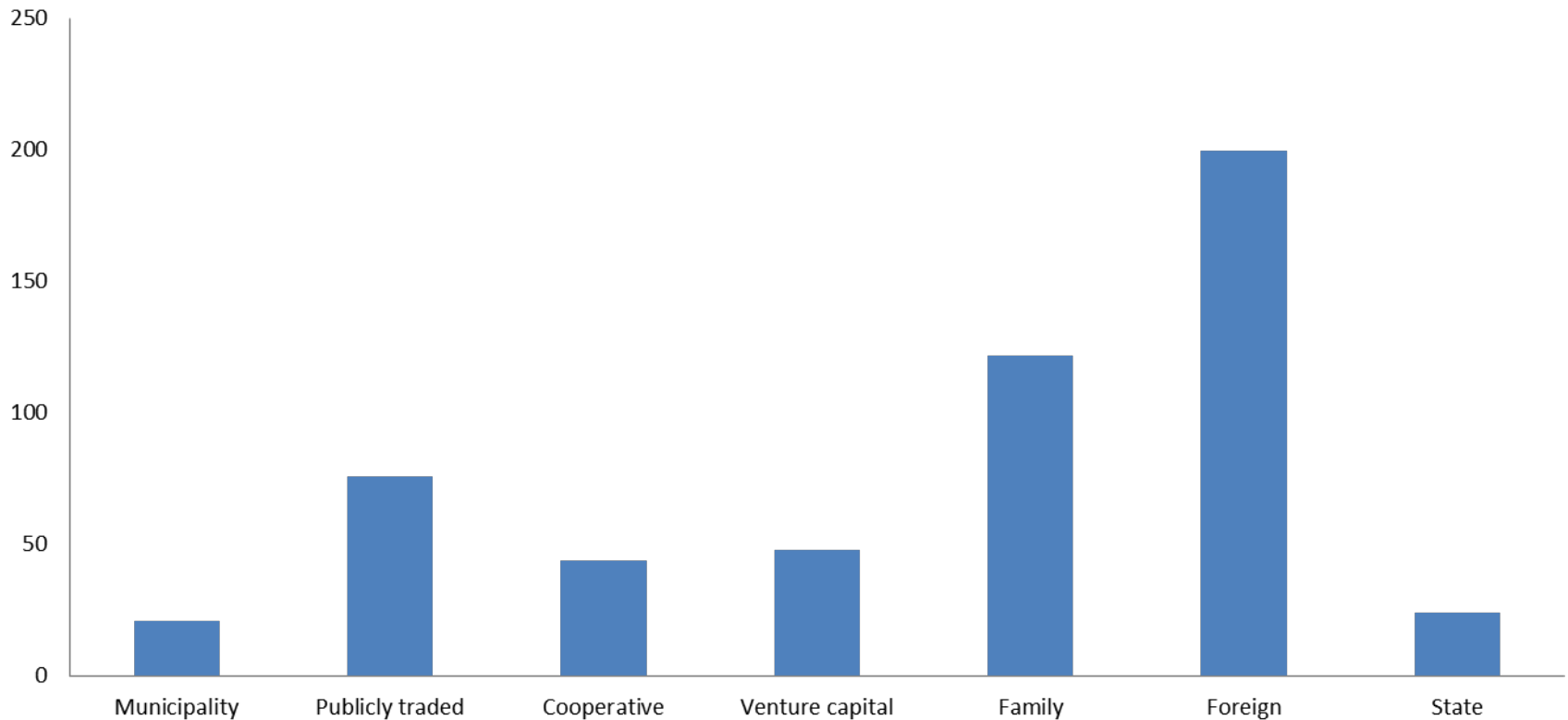
- ***Concentrated Investors*** : Actor owning one or a few firms. The Business idea is to create value in these firms.
- ***Portfolio Investors***: The Business idea is to maximize the value in the portfolio by reallocation and diversification.

Controlling ownership in Finland during the last decades

- **1980s - Still large role for the banks**
- **2010s – Pension funds have substituted for the banks**
- **Dominating role for the state during the whole period**
 - **Among largest in the OECD countries**
- **We see few concentrated owners as controlling owners. Steep fall in firms with dual-class shares.**

Who owns Finnish firms?

Number of firms in Finnish top-500 in 2012 by ownership type

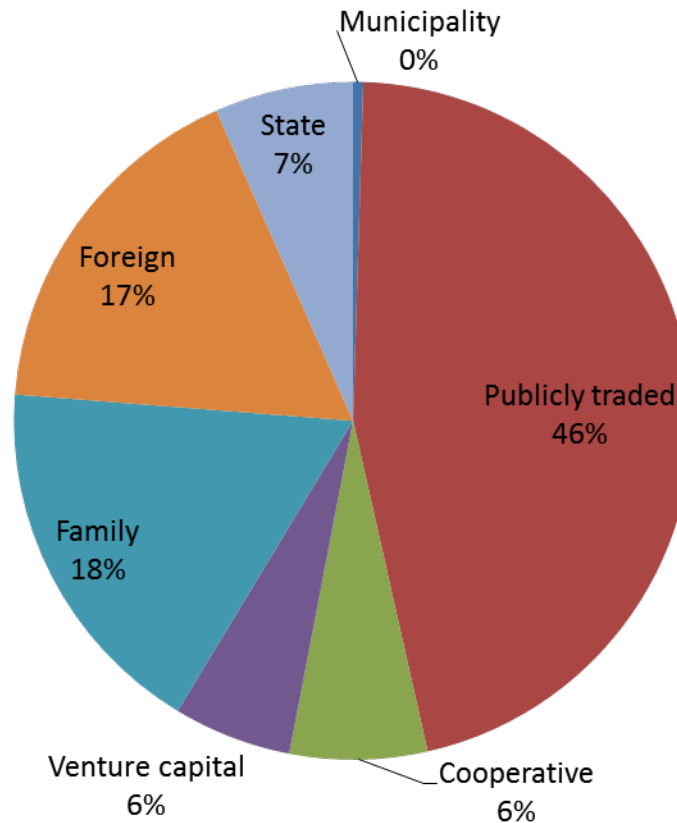


Note: Some firms belong in more than one group

Source: Talouselämä

Who employs Finnish workers?

Employment among Finnish top-500 firms in 2012
by ownership category

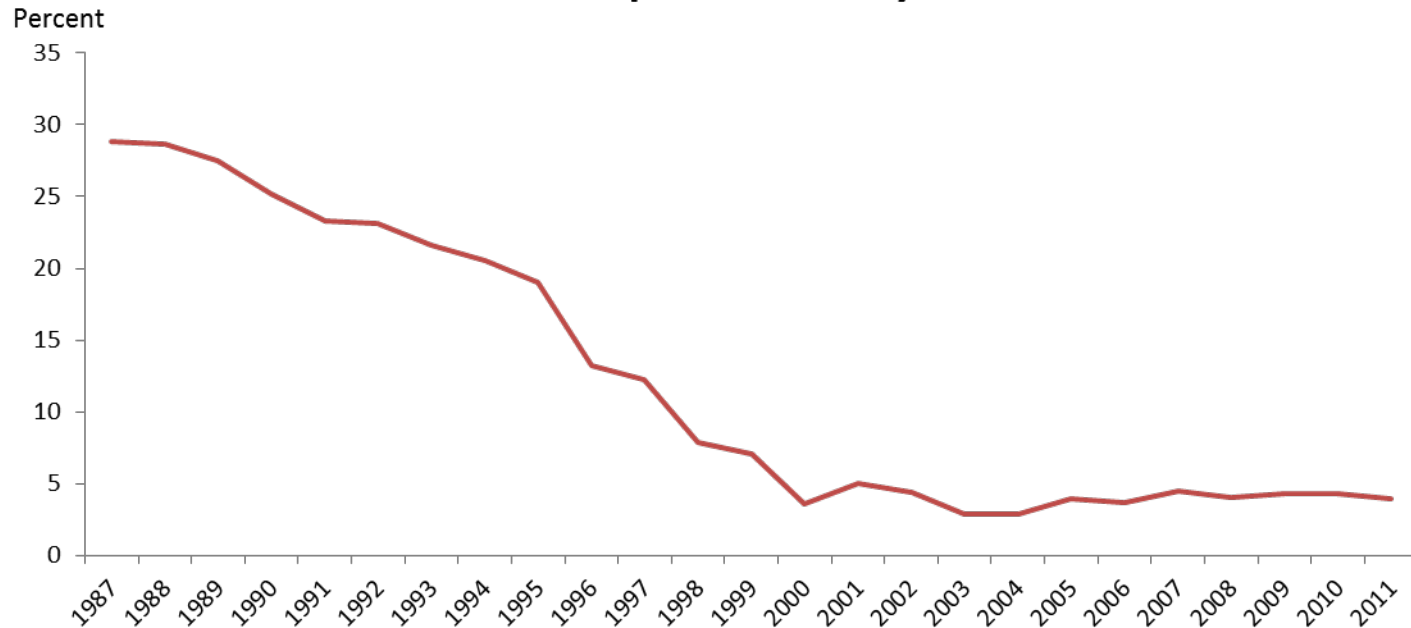


Note: Total employment in top-500 is 1,056,651

Source: Talouselämä

Banking crisis and regulation behind a drop in bank ownership

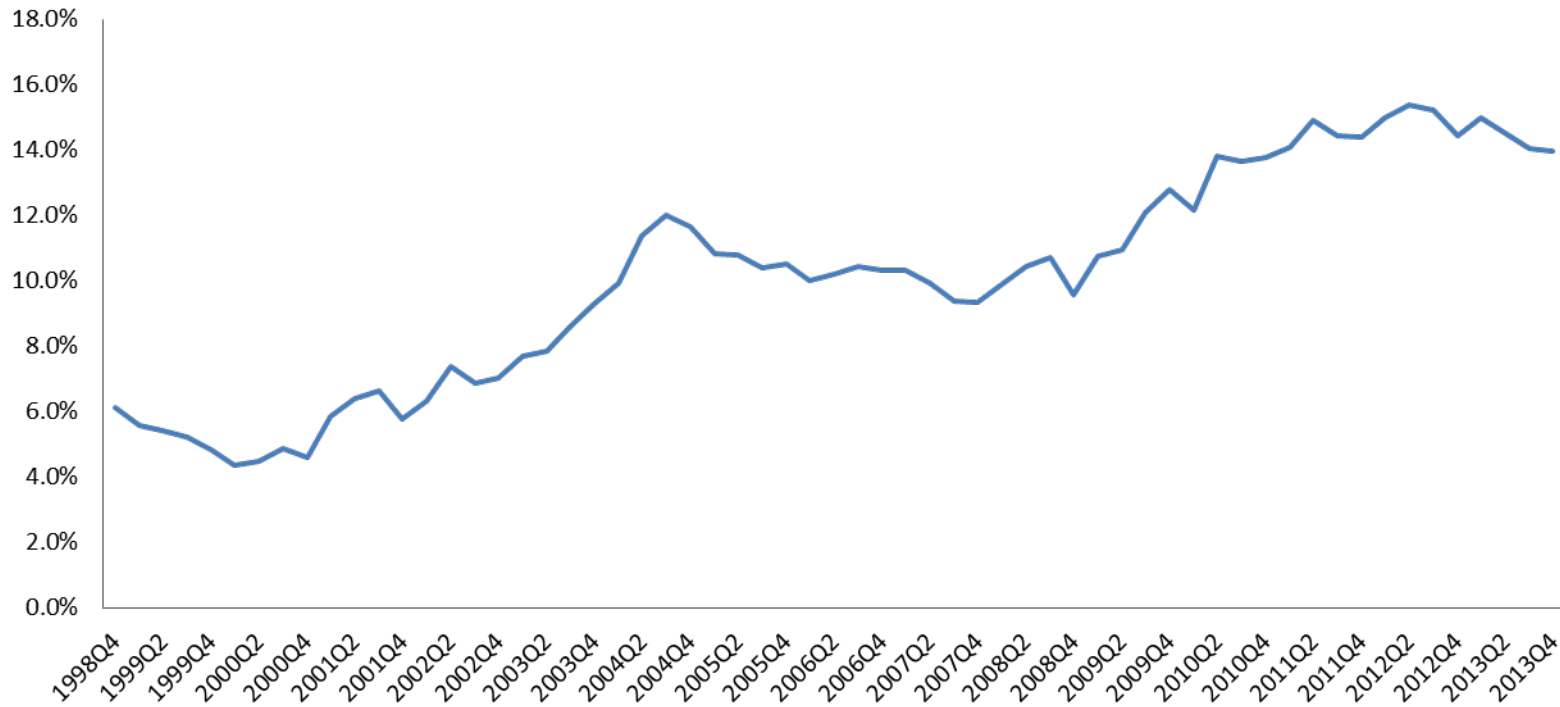
Percentage of outstanding shares of Finnish publicly-traded companies held by banks



Source: ETLA

Pension Funds as growing Finnish institutional owners

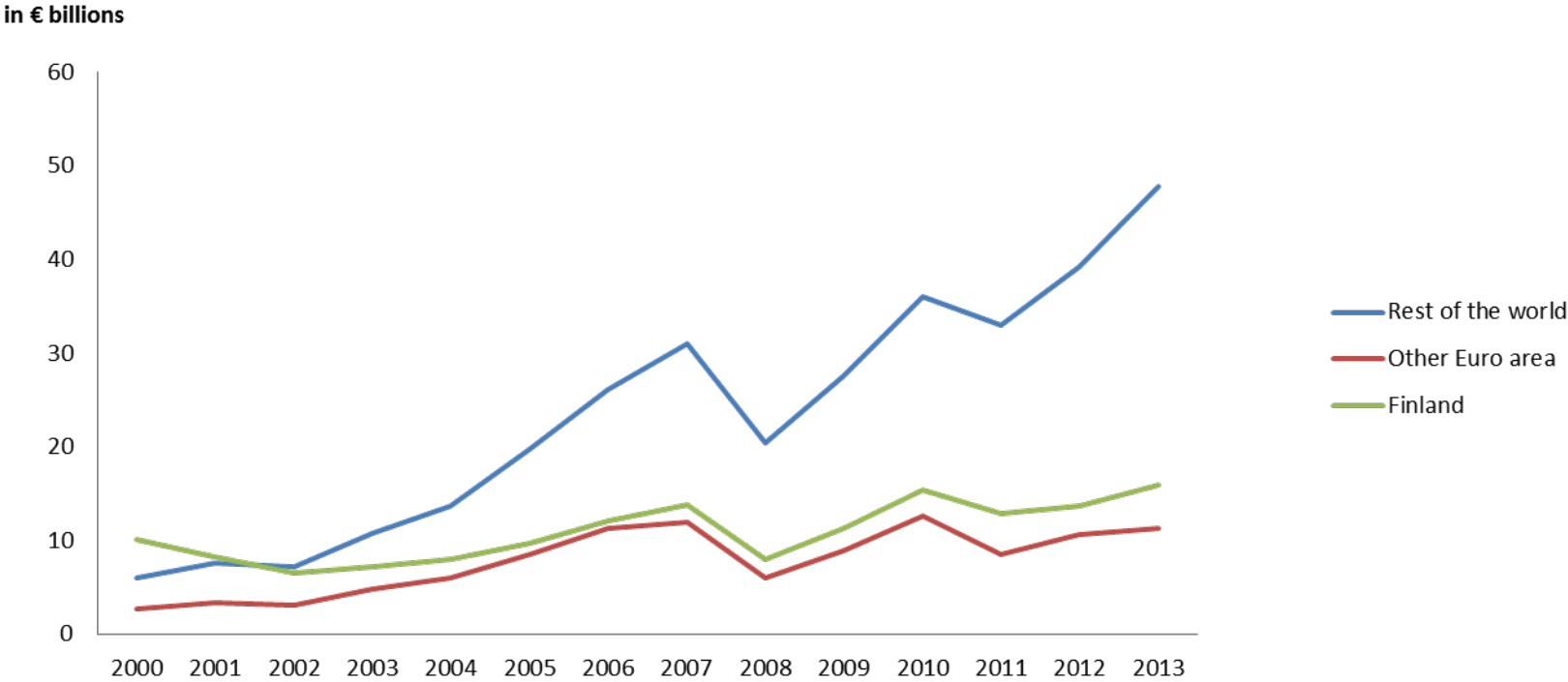
Percentage of publicly-traded shares held by Pension Insurance firms



Source: Tilastokeskus

Much of Pension Fund growth has flown out of the country

Equity investments by Finnish Pension insurance firms



source: TELA

Problems with Institutions as Controlling Owners

- **Considerable costs for each specific institution**
- **Free rider problem for any institution who takes on these costs**
- **Insider problems with closely held firms**
- **No mandate from pension recipients**
- **Strong political ties in some institutions**

Problems with Government Ownership

- **Confusion of firm governance and law making**
- **Distorts competition**
- **Political-/Media pressure may lead to short-sighted ownership policy**
- **Empirical studies indicate that government ownership leads to lower value creating in the firms.**

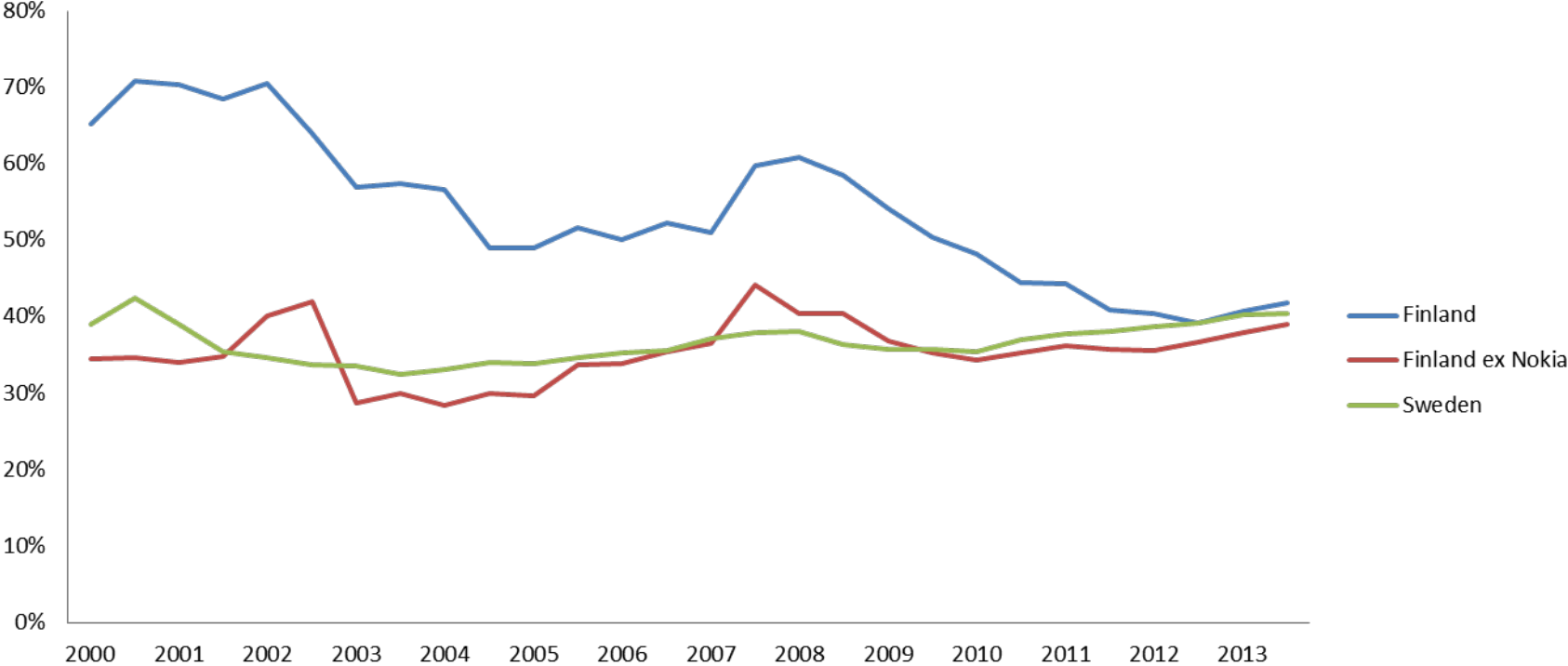
3. FOREIGN OWNERSHIP

Different types of foreign ownership

- **Minority ownership in listed firms (Portfolio investment)**
- **Controlling ownership in listed firms (very unusual)**
- **Direct ownership, where the Finnish firm is a wholly owned subsidiary. (The firm is not on the Finnish stock market)**

Helsinki exchange equally attractive as Stockholm

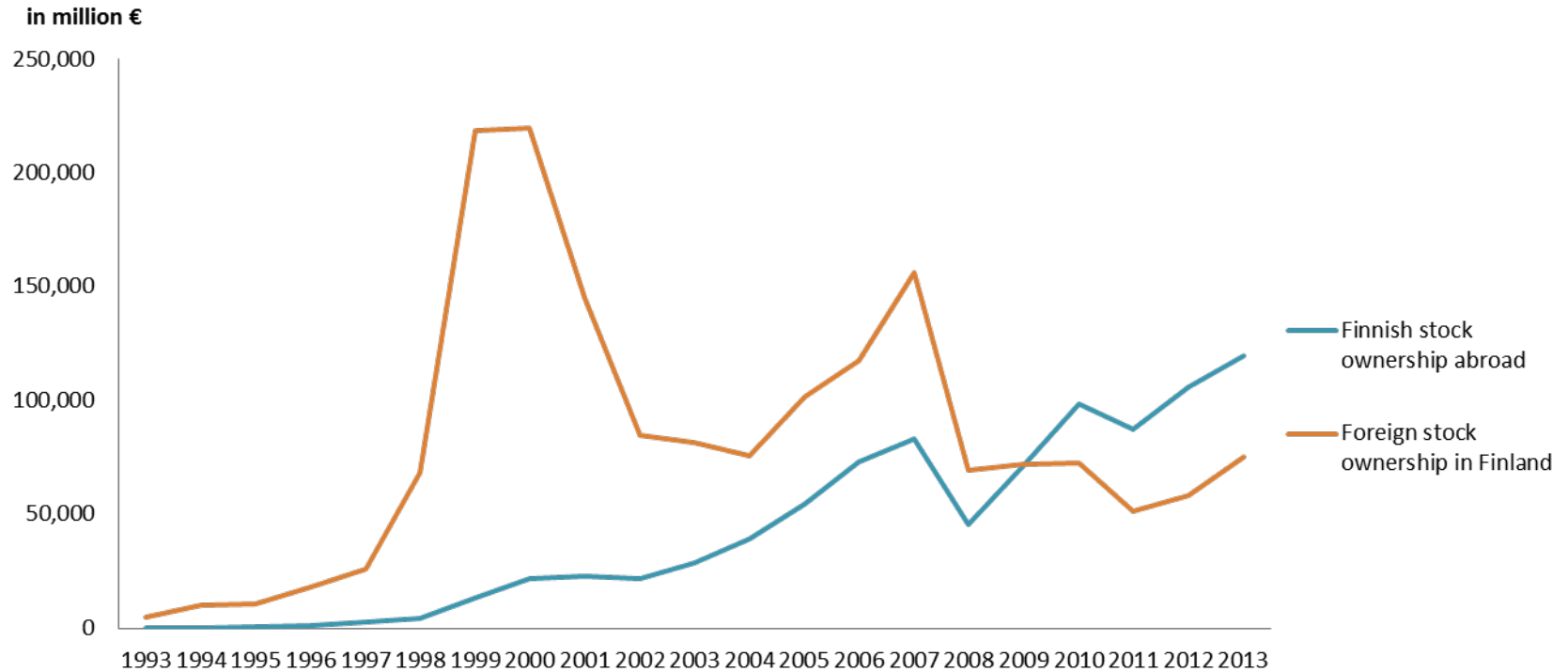
Percentage of foreign ownership in publicly-traded shares in Finland and Sweden



Sources: Euroclear and SCB

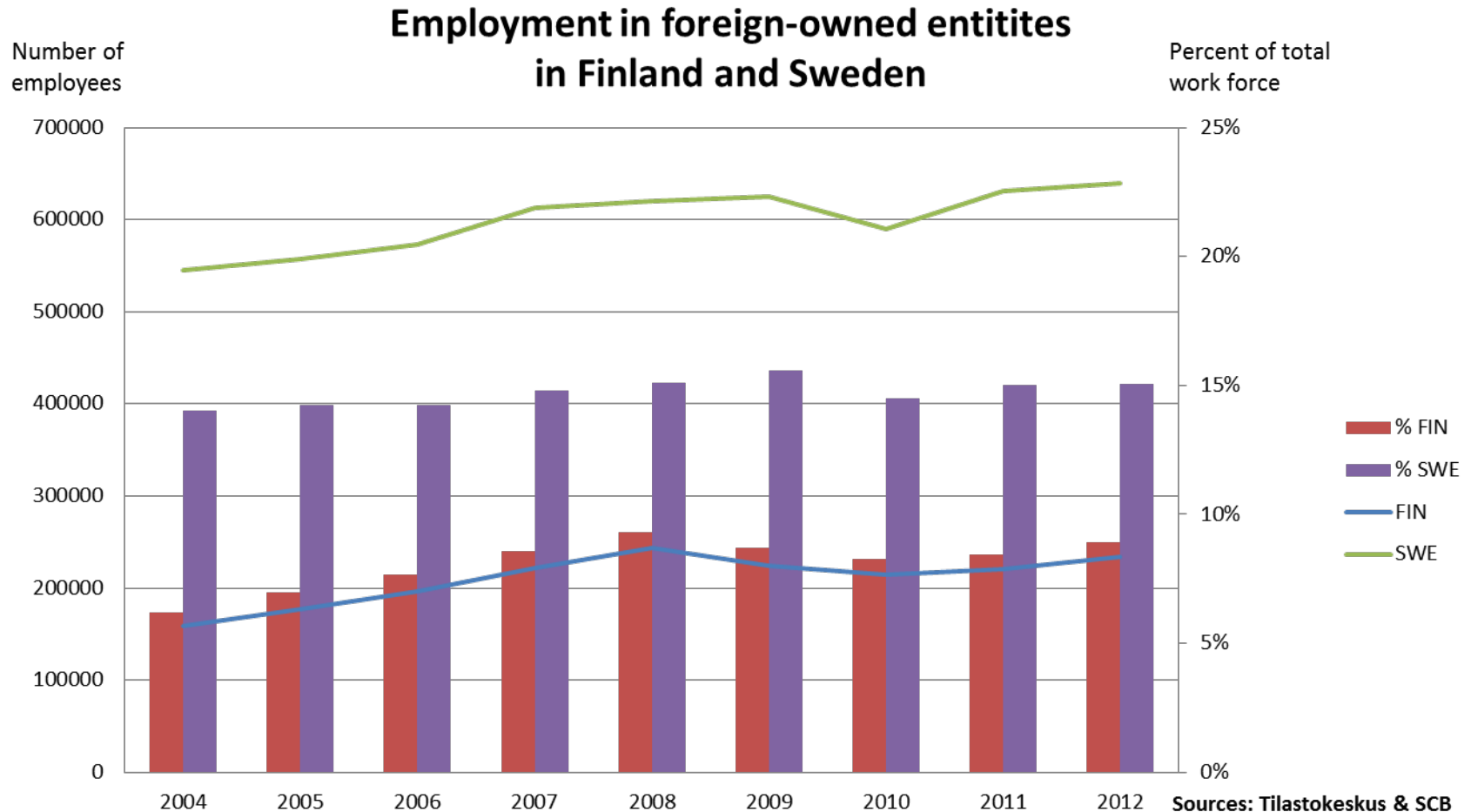
Finnish economy has become a net investor

Finnish stock ownership abroad and foreign stock ownership in Finland



Source: Tilastokeskus

Foreign-owned firms are in more significant role as employers in Sweden



Effects of foreign ownership

- **Conclusion of research: Foreign owned entities have a better performance when it comes to productivity and employment than comparable Finnish entities.**
- **Potential problem: Foreign ownership can lead to reallocation of strategic functions abroad (Ex. Pfizers take over of Pharmacia and and the bid of same firm on Astra Zeneca)**

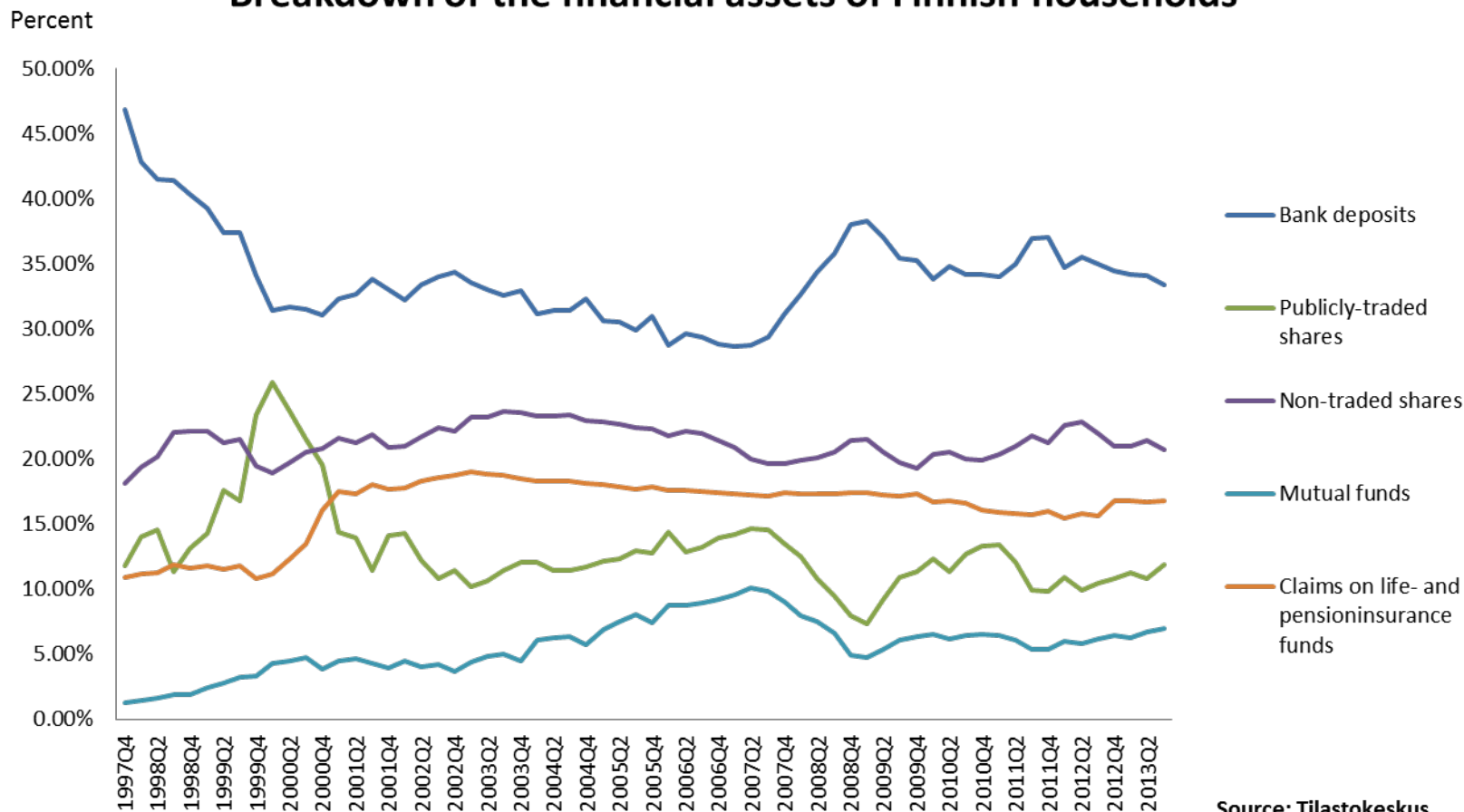
4. FINNISH PROBLEMS

Low investment despite large national need for investment

- **Low investment ratio**
- **Large outflow of Finnish capital**
- **Low inflow of foreign capital**
- **Who wants to invest in Finland?**

Household assets laying on bank accounts

Breakdown of the financial assets of Finnish households



Source: Tilastokeskus

Governance of Finnish firms

- **The control of Finnish firms is to a large extent in the hands portfolio investors with low incentives to create value in the Finnish firms**
- **Strong political ties leads to a confusion of roles**