

## **CENTER FOR CORPORATE GOVERNANCE**

Copenhagen Business School  
Annual Report 2005

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## **Center for Corporate Governance, Copenhagen Business School Activities 2005**

The center was established 1 January 2005 by a grant from Finn Junge-Jensen, President of CBS. The center was officially opened in March 2005.

**Research.** Researchers at the center continued to publish papers in leading international journals such as Economic Theory, the Journal of Corporate Finance and the International Review of Law and Economics.

**Teaching.** Our faculty taught several (7) courses in corporate governance and finance at the masters and MBA programs at CBS. One of the associated researchers (Ole Risager) was distinguished as the best teacher at the executive MBA program in 2005.

**Funding.** Based on input from our advisory board we prepared research projects on EU policies, closely held firms, executive compensation, stock market studies, board diversity and Chinese corporate governance, all of which are partly funded externally. New projects on foundation ownership, corporate governance networks and stock market valuation are being prepared for 2006 and onwards.

**New staff.** Lars Nørby Johansen, chief author of the Danish corporate governance code and chairman of the advisory board joined the center as a part time associate and launched a large scale project on Danish board performance in a comparative perspective. Professor Ole Risager, associate professor Caspar Rose and visiting assistant professor Henrik Matthiesen also joined the center. Two new assistant professors, Bersant Hobdari and Evis Sinani, specializing in corporate governance in transition economies will join the center in may 2006.

**External activities.** During 2005 we organized a series of seminars, workshops and conferences for both business people and academics. Chief among these were the conference on closely held firms, which was visited by the world research elite in family-owned firms. Another highlight was the launch of the new Danish corporate governance code by Lars Nørby Johansen.

**Ph.D. studies** are a key priority at CCG, which was joined by two new Ph.D. students, Frederik Vinten and Olaf Sigurjohnson. A Ph.D. course on "international corporate governance" was taught by Trond Randoy and Steen Thomsen in April 2005.

**International networks.** Researchers from Yale, Harvard, Insead and King 's College were associated with the center as fellows. Researchers at the center collaborate with faculty from leading international universities across the world (e.g. New York, Singapore and Stockholm).

**Distinction as a core research area.** Corporate Finance and Governance was singled out as one of 3 established core research areas in CBS research in a report to the Ministry of Education in August 2005.

**Business relations.** Faculty at the Center continued an active dialogue with the business community in the business press, lecture and applied studies, e.g. the new Danish corporate governance code.

## Participants

### Advisory Board

CEO Jeppe Christiansen, LD  
CEO, Alf Duch-Pedersen, Danisco  
CEO Henrik Heideby, PFA  
Director Lars Nørby Johansen, Falck A/S (Chairman)  
CFO Ejvind Kolding, A. P. Møller-Mærsk  
CEO Ole Krog, HTS  
CEO Lars Rohde, ATP  
Chairman Jens Røder, FSR  
Director Poul J. Svanholm

### Supervisory Board

Professor Morten Bennedsen, Department of Economics, CBS (Chairman)  
Professor Niels Mygind, Department of International Economics and Management, CBS  
Professor Michael Møller, Department of Finance, CBS.  
Associate Professor Carsten Rohde, Department of Accounting and Auditing, CBS.

### Managing Director

Professor Steen Thomsen

### Administration

Lotte Walther Malmskov

### Researchers, CBS

#### Department of Finance

Associate Prof. Ken Bechmann  
Prof. Peter Løchte Jørgensen  
Prof. Michael Møller  
Prof. Niels Christian Nielsen  
Assistant Prof. Kasper Meisner Nielsen  
Prof. Clas Wihlborg

#### Department of Economics

Prof. Morten Bennedsen  
Assistant Prof. Delia Ionascu

#### Dep. of International Economics and Management

Visiting Assistant Prof. Henrik Matthiesen  
Prof. Niels Mygind  
Prof. Ole Risager  
Associate Prof. Caspar Rose.  
Prof. Steen Thomsen

#### Department of Accounting and Auditing

Associate Prof. Michael Andersen  
Associate Prof. Kim Klarskov Jeppesen  
Associate Prof. Carsten Mejer  
Prof. Thomas Plenborg  
Associate Prof. Carsten Rohde

#### Center for Statistics

Associate Prof. Dorte Kronborg  
Associate Prof. Hans Kurt Kvist

#### Department of Industrial Economics and Strategy

Prof. Henrik Lando

### Ph.D Students

Ilduara Busta Varela  
Eva Parum  
Kristin Wallevik

**New Ph. D. Students**

Th. Olaf Sigurjonsson  
Frederik Vinten

**Ph.D. Dissertations 2005**

Carmine Gioia

**New Fellows 2005**

Prof. Igor Filatotchev, King's College, London  
Prof. Henry Hansmann, Yale, USA  
Prof. Bruce Kogut, Insead, France  
Prof. Randal Morck, Alberta, Canada

## **Workshops/Seminars/Conferences at CCG in 2005**

### **Seminar on Corporate Governance in India and China 8/11-05**

#### Speakers

Murali Patibandla, Indian Institute of Management Bangalore, India  
Jens Ørding Hansen & Johnny Xiong, Copenhagen Business School

### **Workshop on Corporate Governance and the Law 4/11-05**

#### Speakers

Caspar Rose, CBS, Center for Corporate Governance  
Christoph van der Elst, Law School of the Ghent University  
Morten Bennedsen, CBS, Department of Economics  
Hans Kurt Kvist, CBS, Centre for Statistics

### **Executive Remuneration 6/10-05**

#### Speakers

Bruce Rayton, University of Bath  
Henrik Mathiesen, CBS  
Toke L. Hjortshøj, University of Aarhus  
Ken L. Beckmann, CBS

### **De Nye Corporate Governance Anbefalinger 28/9-05**

#### Speakers

Lars Nørby Johansen, chief author of the Danish corporate governance code  
Steen Thomsen, CBS, Center for Corporate Governance

### **Conference on Corporate Governance of Closely Held Firms 16-18/6-05**

#### Speakers

Raffi Amit, Wharton, University of Pennsylvania  
Morten Bennedsen, CBS  
Joseph P.H. Fan, Chinese University of Hong Kong  
Henry Hansmann, Yale University  
Mariassunta Giannetti, Stockholm School of Economics  
Klaus Gugler, University of Vienna  
Randall Morck, University of Alberta  
Francisco Pérez-González, Columbia University  
David M. Reeb, Temple University  
Steen Thomsen, CBS  
Daniel Wolfenzon, New York University  
Belén Villalonga, Harvard University

### **Opening Center for Corporate Governance 7/3-05**

#### Speakers

Igor Filatotchev, professor at Kings College, London  
Lars Nørby Johansen, chairman of the advisory board of Center for Corporate Governance  
Steen Thomsen, Managing director of Center for Corporate Governance

### **PhD courses offered**

International Corporate Governance – Co-organized by Agder Business School and Center for Corporate Governance

## Publications 2005

### Working Papers

Ken L. Bechmann & Jesper Rangvid, *Rating mutual funds -Construction and information content of an investor-cost based rating of Danish mutual funds-* Working paper, nr.2005-006

Ken L. Bechmann & Johannes Raaballe, *Taxable Cash Dividends -A Useful Way of Burning Money-* Working paper, nr.2005-004

Ken L. Bechmann & Jesper Rangvid, *Expenses and the performance of Danish mutual funds, 2005*

Morten Bennedsen & Kasper Meisner Nielsen, *The Principle of Proportionality -Separating the Impact of Dual Class Shares, Pyramids and Cross-ownership on Firm Value Across Legal Regimes in Western Europe-* Working paper, nr.2005-022

Morten Bennedsen & Kasper Nielsen & Francisco Pérez-González & Daniel Wolfenzon, *Inside the Family Firm. The Role of Families in Succession Decisions and Performance-* Working paper, nr.2005-021

Eva Parum, *A Strategic Stakeholder Approach to Corporate Governance*, Paper for the 3rd International Conference on Corporate Governance, Birmingham Business School, 4th July 2005

Eva Parum, *Corporate governance and company identity*, Paper for the 8th International Conference on Corporate Governance, Henley Management College, Oxford 2005

T. Plenborg & C. Petersen & F. Schøler, *Issues in valuation of privately-held firms*, working paper 2005

Ole Risager, *The Value Premium on the Danish Stock Market: 1950-2004\**, Working Paper 2005,

Ole Risager, *A Price Earnings Index for the Danish Stock Market* (Revised version submitted for journal publication), Working Paper, 2005.

Carsten Rohde & Pall Rikhardsson & Anders Rom, *Exploring Enterprise Systems and Management Control in the Information Society -Developing a Conceptual Framework-* Working Paper, nr.M-2005-005,

Carsten Rohde & Anders Rom, *Constructing a Financial Project Management System in a Medium-sized Consulting Company with the Use of Combination of an ERP System and Microsoft Excel*, working paper 2005

### Journal Articles

Ken L. Bechmann & Johannes Raaballe & Peter Raahauge, *Anvendelsen af og reaktionen på års- og delårsrapporter på det danske aktiemarked*, Københavns Fondsbørs, 2005 7 s.

Ken L. Bechmann & Johannes Raaballe & Peter Raahauge, *Information og reaktioner på aktiemarkedet*, Finans/Invest nr. 5, S. 5-15 2005

Ken L. Bechmann & Jesper Rangvid & Bo Danø & Mads Gosvig, *Investeringsforeningers omkostninger og performance -atp Rating-* Finans/Invest nr. 1, S. 11-18 ; 2005

Ken L. Bechmann & Jesper Rangvid, *Omkostninger og performance i danske investeringsforeninger*, Aktionæren årg. 15, nr. 1, S. 16-17 ; 2005

Ken L. Bechmann & Johannes Raaballe & Peter Raahauge, *The use of and the reaction to annual and interim reports on the Danish stock market*, Focus, Copenhagen Stock Exchange, No. 102, August 31, 2005.

Morten Bennedsen & Christian Schultz, *Adaptive contracting -The trial-and-error approach to outsourcing-* Economic theory vol. 25, no. 1, S. 35-50; 2005

Niels Mygind & Derek C. Jones & Panu Kalmi, *Choice of Ownership Structure and Firm Performance - Evidence from Estonia*- Post-Communist economies vol. 17, no. 1, S. 83-107 ; 2005

Michael Møller og Niels Chr. Nielsen, *Options aflønning - Fejl, farer og faldgruber*- Ledelse & Erhvervsøkonomi, vol. 69, nr. 2, S. 105-114, 2005

Michael Møller og Niels Chr. Nielsen, *Ti udbredte misopfattelser vedrørende aflønningsoptioner*, Nordisk tidsskrift for selskabsret, vol. 6 no.4, S. 458-472 ; 2004

Michael Møller, *Information og finansielle markeder*, Finans/Invest nr. 3, S. 2-3 ; 2005

Michael Møller og Niels Chr. Nielsen, *Incitaments- og informationsproblemer ved MBO - Bør aktionærer sige nej?-*, Finans/Invest nr. 3, S. 4-10 ; 2005

Eva Parum, *Does Disclosure on Corporate Governance Lead to Openness and Transparency in How Companies are Managed?* Corporate governance vol. 13, no. 5, S. 702-709, 2005

Thomas Plenborg & Morten Holm & Christian Vriberg Petersen, *Værdiansættelse af unoterede virksomheder med DCF-modellen - En undersøgelse af praksis*- Revision & Regnskabsvæsen årg. 74 , nr. 1, S. 26-37 ; 2005

Ole Risager, *Er de toneangivende danske aktier billige eller dyre?*, Aktionæren, April 2005.

Caspar Rose, *Virkningen af ledelsens ejerskab på værdiskabelsen i danske børsnoterede virksomheder*, Revision & Regnskabsvæsen årg. 74 , nr. 12, S. 34-39 ; 2005

Caspar Rose, *Medarbejdervalgte bestyrelsesmedlemmer i danske virksomheder - Konsekvenser for corporate governance og stakeholder teori*- Tidsskrift for arbejdsliv årg. 7, nr. 3, S. 34-50 2005

Caspar Rose, *Bestyrelsesdiversitet og værdiskabelse i danske børsnoterede selskaber*, Nordisk tidsskrift for selskabsret vol. 7 no.2, S. 69-82 ; 2005

Caspar Rose, *The Composition of Semi-Two-Tier Corporate Boards and Firm Performance*, Corporate governance vol. 13, nr. 5, S. 691-701 ; 2005

Caspar Rose, *Fremmer øget institutionelt ejerskab virksomhedernes værdiskabelse?* Finans/Invest nr. 4, S. 10-15 ; 2005

Caspar Rose & Henrik Lando, *On the enforcement of specific performance in Civil Law countries*, International review of law and economics, vol. 24, no. 4, S. 473-487, 2005

Steen Thomsen, *Corporate governance as a determinant of corporate values*, Corporate Governance vol. 5, no. 4, S. 10-27, 2005

Steen Thomsen, *Conflicts of Interest or Aligned Incentives? - Blockholder Ownership, Dividends and Firm Value in the US and the EU*- European business organization law review, vol. 6, no. 2, S. 201-225, 2005

Clas Whilborg & Chris Mallin & Andy Mullineux, *The Financial Sector and Corporate Governance - The UK case-*, Corporate Governance, vol. 13, no. 4, July 2005

Clas Whilborg & Jianhua Zhang, *The Polish stock market - Risk and risk premia*- The Poznan University of Economics Review, Vol. 4, nr. 2 2004

Clas Whilborg, *Solving the bargaining democracy problem using a constitutional hierarchy for law*, Journal of economic behavior & organization vol. 56, no. 4, S. 655-673 ; 2005

Michael Møller & Claus Parum, *Optimal kapitalstruktur*, Økonomistyring, Kapitel 10.6, 9 s. 2005

### **Book Chapters**

Steen Thomsen, *Corporate Social Responsibility -En økonomisk vinkel- Virksomhedens ledelse og Sociale ansvar af Karin Buhmann & Dahl Rendtorff (Red.)*, S. 145-156 ; 2005

Niels Mygind & Derek C. Jones, *Corporate governance cycles during transition -Theory and evidence from the Baltics- The Life Cycle of Corporate Governance af Igor Filatotchev and Mike Wright (Ed.)* S. 253-286 ; 2005

### **Media Exposure (examples)**

Ken L. Bechmann, *Bonus til direktorer i overtagne selskaber – Tilfældet Københavns lufthavn*, Interview med ken L. Bechmann i: TV" Nyhederne, 25. oktober 2005

Morten Bennedsen & Nikolaj Malchow-Møller & Frederik Vinten, *Institutions and Growth -A Literature Survey- CEBR Report 2005-01*

Morten Bennedsen, *Generationsskifte koster på bundlinjen*, Interview med Morten Bennedsen i: TV2 Finans, 20. juni 2005

Morten Bennedsen & Steen Thomsen, Interview med Morten Bennedsen og Steen Thomsen trykt i: Børsen Fredag d. 10 Jun 2005

Morten Bennedsen & Steen Thomsen, *Dansk modspil til EU's corporate governance*, Interview med Morten Bennedsen og Steen Thomsen trykt i: Børsen Fredag d. 4 Februar 2005

Michael Møller, *Hvorfor er kapitalfonde bedre ejere?* Ugebrev for Bestyrelser, nr. 15/2005, 29. april

## Income Statement

<b>Income</b>		<b>Expenses</b>	
CBS Grant	475.000	Conference on closely held firms	-43336,49
Research funding, Agder Business College	14980	Databases	-34500
		Travel expenses	-89737,07
		Research assistance	-81153,81
		Administrative expenses	-34430,97
		Representation expenses	-32545,41
		Brochures	-8493
		Equipment and furniture	-22475,51
		Various costs	-1527,49
<b>Total</b>	<b>489.980</b>	<b>Total</b>	<b>-348199,75</b>
		Transfer to 2006	141.780

Note: The center for corporate governance relies mainly on the work of the associated researchers (research, administration, teaching) which does not appear in this statement. Neither does income from separately administered research projects. The externally financed research project (Corporate Governance of Companies with Concentrated Ownership, 3 mill DKK 2003-2005) financed most of the conference on closely held firms in June 2005.

## Center for Corporate Governance, Copenhagen Business School Action Plan 2006

The center aims to advance knowledge of corporate governance and thereby to contribute to good corporate governance in practice. This involves

- Good research published in professional international journals
- Launching and funding research projects
- Recruitment of Ph.D. students
- Stimulating discussion through workshops, seminars and policy work.
- Dialogue with the business community

### Research Projects 2006

**Corporate governance of closely held firms** (Project leader: Morten Bennedsen). The research project GOCOW aims to make a contribution to theoretical and empirical research on the governance of firms with concentrated ownership as observed in the Western European and Scandinavian countries. The main objective is to investigate the governance and organization of European closely held corporations. GOCOW aims at filling this gap through a number of research projects including: Why closely held firms seek outside equity? What is the role of the corporate board in firms with concentrated ownership and how are these boards organized? Does ownership concentration affect performance in closely held corporations? What are the implications for firm organization and firm performance of family ownership? What are the implications of using pyramidal structures as a remedy to concentrate control? What is the interaction between ownership concentration and the protection of outside investors?

**Danish board performance in a comparative perspective** (Project leader: Lars Nørby Johansen). This research project aims to examine the structure, behavior and performance of Danish boards in a comparative perspective. The first part of the project will be a comparative statistical study of European board structures. The second part will consist in a systematic panel data analysis of Danish board structures as a function of company characteristics and demographic information. The third part will attempt to "enter the black box" and examine actual board decision processes through participation, minutes and interviews.

**European corporate governance policies** (Project leader: Steen Thomsen). This project examines European corporate governance policies and their likely economic impact. In 2006 we aim to focus on two sub-projects: 1) Causes of delistings from European stock exchanges. Is the current wave of delisting caused by overregulation and increasing costs of governance? 2) A re-examination of the case against dual class shares. Is there an economic rationale for policy intervention against dual class shares as advertised by internal market commissary Colin McCrevey. Further studies will examine other European corporate governance policies.

**Incentive programs and corporate governance - Evidence from Denmark/Scandinavia.** (Project leader: Ken Bechmann). The purpose of this project is to conduct an exhaustive empirical study of the role of remuneration, incentive programs, and option-based compensation in corporate governance on non-US data. Among other things, this includes studying the relationship between the use of incentive programs and the firm's industry type, capital structure, general performance, cost of capital, investor base, and other *shareholder value* related aspects like payout policy, stock splits, and the use of investor meetings. As a starting point, the project will use a unique and newly constructed database on listed Danish firms. In particular the database provides information on the distribution of option-based compensation among boards of directors, executives, and employees at the firm level. This will allow us to take a broader perspective on the use of incentive programs than most of the existing literature. So far nearly all attention has been paid to the payment of executives. The period covered in the database is from 1995 – when the first option-based compensation was introduced in Denmark – until the present. A complete description of information in the database including descriptive statistics can be found in Bechmann and Jørgensen (2003). It is the intention of the participants to extend the study to include similar data from other Scandinavian countries – in particular Finland, Sweden, and Norway.

**Governance and restructuring of enterprises in the Baltics** (Niels Mygind). This project analyses the determinants behind the new ownership structures and governance practices emerging during the transition process in the three Baltic countries. This includes a closer analysis of the special governance cycle – sequential changes in ownership type – closely related to the transitional restructuring process of the companies in the Baltics. Another core research question under investigation is: What are the relations between different ownership structures/governance practices and economic restructuring and performance? The analysis is based on panel data of ownership and financial results covering around 500 enterprises for each of the three countries collected over a long period and still being updated for Estonia. This data is supplemented with special management surveys on board structure, management tenure, compensation and specific restructuring activities. The analysis is further supported by qualitative case-studies for around 10 companies in each country.

**Stock market valuation, institutions and investment strategies** (Ole Risager). This projects studies stock market valuation over time and possible causal mechanisms, for example whether stock prices show mean reversion over long time periods and whether this may be caused by institutional, behavioral or economic mechanisms.

**The level of disclosure and the cost of capital in Denmark** (Thomas Plenborg). This project examines the association between the level of voluntary disclosure and various proxies for the cost of capital for industrial firms listed on the Copenhagen Stock Exchange. Economic theory suggests that disclosing more information should lower the information asymmetry component of a firm's cost of capital. The project is motivated by the fact that the vast majority of research in this area is based on American data. For instance, in a review of the empirical disclosure literature Healy and Palepu (2000) find that nearly all studies examining the association between the level of voluntary disclosure and cost of capital are based on US data. Due to institutional differences there are reasons to believe that the association between the level of disclosure and the cost of capital may differ across nations.

**Strategic enterprise management systems in corporate governance** (Carsten Rohde, Michael Andersen). The aim of this project is to study the extent to which the introduction of Strategic Enterprise Management Systems (SEM) as a superstructure on Enterprise Resource Planning Systems (ERP) will affect a company's capability of preparing and monitoring better updated, relevant and credible financial analyses and forecasts. To this end we have chosen to focus on the information needed by the company's management and board. Special attention is given to the extent to which such systems will provide the management and the board with tools that enable them to monitor and react to events or facts that are not in keeping with company strategies and plans. SEM systems consist of various modules that cover both recent and well-known financial management methods and systems, as e.g. The Balanced Scorecard, Activity-Based Costing/Management, Value-Based Management, Business Planning and Simulation, Business Consolidation, Budgeting, etc. Some of these methods and systems have already been implemented in a number of innovative Danish enterprises; however, only limited efforts have been put into studying, analyzing and communicating the results and experience gained. The project will be organized as a longitudinal, multiple case study in 4-6 Danish businesses in which one or more SEM modules have been implemented. A similar project is being worked on by researchers in England and will be used in comparative analyses of the present project.

**Sale of unlisted companies and conflicts of interest** (Michael Møller, Niels Christian Nielsen). Many venture companies have as a principle that they offer the existing management group a chance of buying stocks in "their" company at very advantageous conditions. An obvious risk is that this works as a hidden bribe so as to make the management work for the sale of the company to those venture companies that offer the best conditions. As management has some influence in the sale of "their company", this is problematic. The project aims to analyze information and incentive problems in connection with sale of companies.

**Governance of charities** (Michael Møller, Niels Christian Nielsen). Donors to charities have little possibility to judge the efficiency of the organization. Organizations can overestimate the positive effects of contributions to the organization. An inefficient private company will be driven out of business thanks to competition, but there is no equivalent mechanism in connections with charities. The board of directors is responsible for closing down inefficient charities. The incentive to do so, however, depends on whom the board represents. If they represent donors, there might be reason to expect inefficient charities to close. If they represent recipients, however, the case is different. The project looks at the governance structure of different charities.

**The impact of employee board representatives on corporate governance.** (Caspar Rose, Hans Kurt Kvist.) The project conducts an empirical study of co-determination by employee representatives on Danish boards. Specifically, we examine how much influence employee representatives have on the decision process in the supervisory board, recognizing that board members elected at the general meeting by shareholders will always be in majority. Thus, we explore what factors if any this influence depends on. Second, we seek to examine if employee representatives consider themselves more stakeholder oriented compared to the board as a whole. The project also analyzes the future challenges for employee representation, as the present system, not only in Denmark, but also in several other European countries, do not coincide with the Anglo-American focus on shareholder value.

## Start-up Projects

**Small Worlds in Scandinavia:** A comparative examination of board and ownership ties in large Scandinavian companies (Gabriel Benito, Henrik Glimsted, Bruce Kogut, Trond Randoy, Anna Stafsudd, Steen Thomsen).

**Foundation ownership and economic performance.** (Project Leader: Steen Thomsen) This project will examine the effects of foundation ownership of Danish business companies. A first study to be conducted in 2006 will combine existing data on large Danish firms over the time period 1980-2005. A second study in 2007-2008 will gather data on all foundation-owned companies in Denmark and examine their performance relative to family and investor-owned firms.

## Ph.D. Projects

**Listed small cap companies' communication on corporate governance** (Eva Parum). Building on the researcher's background as director and chairman in companies in Danish industry, the project examines in-depth 70 Danish listed small cap companies' communication on corporate governance. The project is especially interested in examining why the board of directors chooses to communicate about corporate governance to the stakeholders of the company and which goals the board wants to satisfy by choosing corporate governance as a framework for communication on management processes and strategic goals. The project consists of four elements: (1) Description and characterization of the companies involved with data from annual reports and homepages from the companies. (2) An analysis of board communication on management processes and company goals. The analysis will be organized in a Corporate Scorecard and the knowledge from (1) and (2) will act as input to (3) the third element: semi-structured interviews with chairmen and stakeholders. Finally (4) a case will be established. The data so far seems rather interesting and closer analysis will hopefully tell us more about strategic decision-making and communication in listed small cap companies.

**Corporate governance in closely held firms – with a special focus on the maritime sector.** (Kristin Wallevik). It is well appreciated that the corporate governance of closely held firms differs substantially from that of publicly held firms. If academic research is to inform and improve corporate governance in general, it is therefore of paramount importance to redirect the focus of current research to analyze the corporate governance of closely held firms. This research project will contribute to filling this gap by studying corporate governance practices in an industry in which a) closely held firms are particularly common (shipping) and b) a significant share of those firms are located in Norway. This research design highlights industry and firm conditions under which closely held firms may be particularly competitive, as well as support mechanisms, which facilitate or impede competitiveness. The research project will focus on the links between ownership structure, board structure and management incentives, and how these elements affect the financial performance and the company's strategy and thereby contribute to long- term growth and profitability in Norwegian. The research project will also give a broader knowledge-background for the shipping companies in developing the governance mechanisms and the company's strategy. The focus will be on how shipping companies should compose their boards, how the management incentive-packages should be designed, as well as how the effectiveness of the board and the incentives depend on the shipping company's strategy.

**Competitive success in European banking: Internationalization, governance and performance** (Ilduara Busta). European integration, in particular the EMU has led to structural adjustment in the EU banking system and increased international competition, putting banks' profitability under pressure. This project aims to examine the determinants of success in this situation adopting a corporate governance perspective. Which banks are successful in terms of profitability, growth, market share and international expansion? Our assumption is that few banks will have a real presence in the integrated European financial market. What makes them different? We will look at banking structure, governance model (as a function of their national systems), internationalization strategies and M&As as some of the possible determinants of success. Among other hypothesis we will test whether certain ownership structures or governance models seem superior to others and constitute a trend within the European banking sector. Or alternatively original national differences might prevail in the leading European financial organizations. Different reasons make the governance problem different for the bank industry; therefore specific research is needed since we will not be able to successfully apply our knowledge on the governance of industrial firms to solve it. The project is structured in four parts: (1) Bank governance and performance,

(2) Ownership and governance in European banking, (3) The interaction between international competition (both in product and financial markets), governance and performance.

**Private equity and ownership structure. Theoretical and empirical aspects of corporate ownership structures on firm performance** (Frederik Vinten). The research project aims to contribute to the theoretical and empirical research on the impact of ownership structures on performance of firms, so that the understanding of which kind of ownership of a firm is preferable from the point of view of both the stakeholders of the firm and the society as a whole. In general the question is who is the best owner of a firm? More specifically it means that some types of firms should have a certain ownership structure because it generates a better performance of the firm. Many empirical studies have investigated the effect of different ownership structures such as family ownership, institutional investors or private equity funds on the performance of firms, but there is a lot of ambiguity regarding generalization of the empirical results. The idea is that certain ownership structures fits special types of firms better than others. Therefore this hypothesis can to some extent explain the discrepancies among the empirical evidence, simply by stating that firms and owners are wrongly matched. A possible explanation of the ambiguity among the empirical evidence could be a lack of theoretical understanding of the problem. The present research will seek to establish a theoretical framework for identification of optimal matching of firms and owners. It is further planned to test the theory empirically on Scandinavian and Western European countries. Another objective of this project is to investigate other aspects of the effect of ownership structure on performance. It is expected that effects of cultural differences in corporate governance systems in different transitional countries in Eastern Europe and the Far East can be identified.

**Privatization in the Nordic countries** (Th. Olaf Sigurjonsson). This project is concerned with economic consequences of privatizing companies in the Nordic region and establishing parameters that account for economic value creation in this context. Over the last two decades privatization has been a major focus point of public restructuring. This applies to nearly every country, developed and developing alike. The Nordic region has had its share of the rise of privatization. The origin of this development is well recognized; state owned enterprises (SOE's) proved not to be as well performing and efficient as those in the private sector. Several empirical studies of privatization and its impact on corporate performance have been carried out. Studies for the Nordic region are scarce though. Usually studies seem to focus on a few isolated variables, first and foremost on pure economic performance. Others have focused on ownership structure, management impact, influences on employment levels, etc. This leaves out the question what variables matter the most for the success of privatization? Comparative studies of this sort seem not to have been carried out for the Nordic region. Neither do there seem to be studies on differences between those industries that have been driven through the privatization process. The research will try to find the true source of post-privatization gains in the Nordic region and answer thereby the question what variables best explain the economic gain? The parameters being emphasized in the research are ownership structure, market structure, management, incentive structure, timing and announcement effect and selection method.

#### **Seminars and workshops planned for 2006.**

- Value, growth and mean reversion (Workshop)
- Employee representation on Danish boards (Book release)
- Corporate governance of financial institutions (Workshop)
- Corporate governance in China (Workshop)
- Shareholder activism (Business seminar)
- Politics of governance (Workshop)
- Private equity (Business seminar)
- DCGN annual meeting (Workshop)