



Copenhagen
Business School
HANDELSHØJSKOLEN



CENTER FOR CORPORATE GOVERNANCE
Copenhagen Business School
Annual Report 2007



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About the Center for Corporate Governance

The Center for Corporate Governance (CCG) is a virtual forum for the advancement of knowledge in Corporate Governance, which we define as “the control and direction of companies” by owners, boards, incentive systems, law and other mechanisms. It is a truly interdisciplinary centre comprised of researchers in finance, economics, accounting, law, management and international business as well as business people, auditors and government officials. CCG has close associations with the business community, e.g. through its advisory board. We organize research projects, workshops, Ph.D. courses and seminars.

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

Objectives

The purpose of the centre is to advance the state of knowledge in the field and thereby to contribute to good corporate governance in practice. This involves joining resources from several functional areas, international academic institutions, and the business community. We aim for

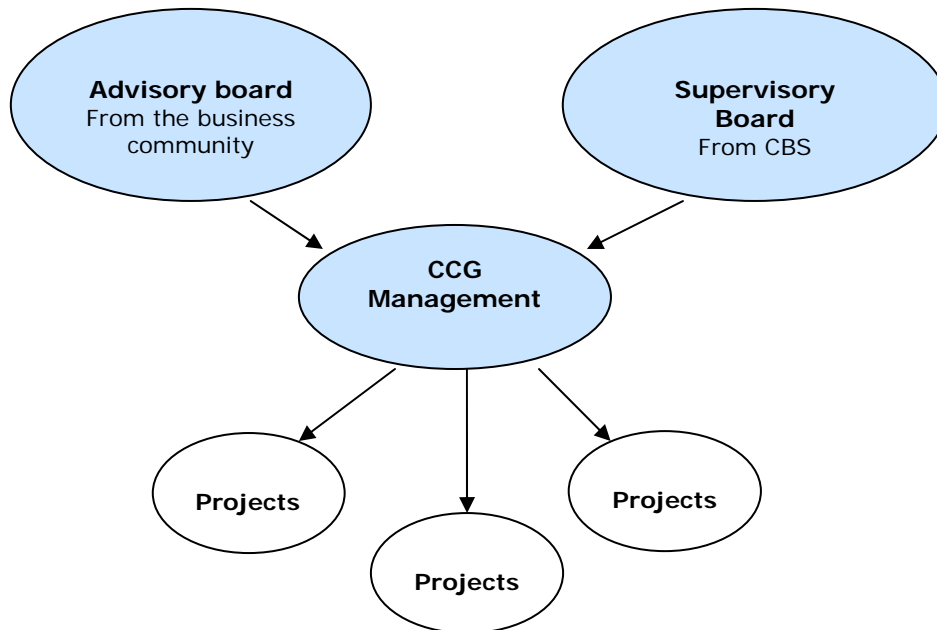
- International visibility and recognition, primarily through publications in professional, international journals, but also through workshops, seminars and policy work.
- Funding of research projects in corporate governance from national and international research agencies, government organizations, charities and business firms.
- Recruitment of Ph.D. students working on corporate governance.
- A much-improved dialogue with the business community in the form of cooperative research projects, training programs and the like.

Values

CCG does not promote any specific corporate governance doctrine, but is a research forum to facilitate discussion and dialogue between various viewpoints. Thus, the participants do not necessarily agree on anything except a shared interest in the subject. There are currently many “quick fix solutions” to corporate governance and their proponents as well as the business community seem likely to benefit from careful assessment of the alternatives.

Organization

The centre is headed by a managing director, Professor Steen Thomsen under the direction of a supervisory board composed of representatives from participating CBS departments. In addition, the centre is guided by a business advisory board on long-term strategic issues.



The advisory board is composed of leading officers and directors from large Danish companies and institutional investors. It provides ideas for research projects, feedback on our activities and comments on developments in corporate governance.

The supervisory board – which carries the formal responsibility – is composed of professors from the CBS departments of accounting, economics, finance, international economics and management, which joined forces in establishing the centre.

People at the Center for Corporate Governance

Advisory Board

CEO Jeppe Christiansen, LD

CEO Tom Knutzen, Danisco

CEO Henrik Heideby, PFA

Chairman Lars Nørby Johansen, Falck A/S

CFO Ejvind Kolding, A. P. Møller-Mærsk

Deputy General Secretary Tine Roed, Dansk Industri

CEO Lars Rohde, ATP

Chairman Jens Røder, The Institute of State Authorized Public Accountants in Denmark (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

Julie Blegvad

Søren Lehnert

J. Filip Kolasa



CCG Researchers at Copenhagen Business School

Department of Finance

Associate Professor Ken Bechmann
Professor Michael Møller
Professor Niels Christian Nielsen
Assistant Professor Kasper Meisner Nielsen
Professor Clas Wihlborg

Center for Statistics

Associate Professor Dorte Kronborg
Associate Professor Hans Kurt Kvist

Department of Economics

Professor Morten Bennedsen
Professor Peter Bogetoft
Assistant Professor Delia Ionascu

Department of International Economics and Management

Professor Niels Mygind
Professor Steen Thomsen
Professor Ole Risager
Associate Professor Casper Rose
Assistant Professor Bersant Hobdari
Assistant Professor Evis Sinani
Assistant Professor Aleksandra Gregoric

Department of Accounting and Auditing

Associate Professor Michael Andersen
Associate Professor Kim Klarskov Jeppesen
Professor Thomas Plenborg
Associate Professor Carsten Rohde

Department of Industrial Economics and Strategy

Professor Henrik Lando

Department of Management, Politics and Philosophy

Associate Professor Martin Iversen

PhD Students

Ilduara Busta Varela
Kristin Wallevik
Th. Olaf Sigurjonsson
Frederik Vinten
Søren Vincents Svendsen
Therese Strand

Activities 2007

Research: CCG researchers continued to publish their research in high ranking professional journals including Journal of Public Economics and The Quarterly Journal of Economics (see publication list) and organize a range of seminars and workshops on issues like dual class shares and European governance initiatives (see seminar list). A number of externally funded research projects - on topics like family ownership, financial mutuals and Nordic corporate governance - were begun (see research projects).

Teaching: Our faculty taught several courses in corporate governance at the masters and MBA programs at CBS:

- Morten Bennedsen: Firm Theory and Corporate Governance (Master of Science, Applied Economics and Finance).
- Steen Thomsen and Aleksandra Gregoric: Corporate Governance and Finance (Master of Science, Finance and Strategic Management)
- Steen Thomsen and Aleksandra Gregoric: International Corporate Governance (Master of Science, International Business)
- Steen Thomsen: Corporate Governance (Fulltime MBA)

New staff: In August 2007 a new assistant professor, Aleksandra Gregoric, specializing in corporate governance, and in October Peter Bogetoft, specializing in performance evaluations and incentive mechanisms, joined the centre.

International networks: Researchers from Yale, Insead, Alberta and King's College are associated with the centre as fellows. Researchers at the centre collaborate with faculty from leading international universities across the world (e.g. Bangkok, New York, Singapore and Stockholm).

Business relations: Faculty at the centre continued an active dialogue with the business community in the business press, lecture and applied studies.

Workshops/Seminars/Conferences at CCG in 2007

1st of November

Seminar on “European Corporate Governance Regulation”

The EU-Commission had been highly active in regulations of corporate governance, both through issuing *hard-law* directives, such as the takeover directive and the directive on certain shareholder rights that have to be implemented before 2009, and *soft-law* recommendations, such as e.g. the recommendation on independence in the board of directors. Especially the EU-Commission had just taken a stand on, whether or not dual class shares should be forbidden, as they are against the principle of proportionality. In 2004 the EU-Commission set up the *European Corporate Governance Forum*, that among other things had to encourage a convergence between the different member states’ corporate governance codes and advice the EU-Commission on corporate governance matters. The member of the European Corporate Governance Forum *Rolf Skog* did in his contribution look at the evolution of European corporate governance. He tried to answer the question, whether or not there would still be space for “*a Nordic way*”, where corporate governance issues are answered and regulated in the light of the Danish and Nordic ownership and control structures. In the US, the Sarbanes Oxley and the new enforcement regime have inflicted huge burdens on the business community and the EU is on its way to increase the regulatory burden, which could result in higher costs for the companies. *Steen Thomsen* did in his contribution point out that an increased regulation can hamper the development of the stock market, as it can make it attractive to delist companies.

Speakers:

Rolf Skog, European Corporate Governance Forum
Steen Thomsen, Copenhagen Business School

18th of September

Conference on “European Company Ownership”

In 2006 the European Commission launched an external study on shareholder democracy. The study was published and it identified existing deviations from ‘One share one vote’ in listed companies across the EU. Moreover, it had provided an in-depth analysis of the relevant regulatory framework at Member State level and had also evaluated the economic significance and potential impact of these deviations on EU financial investors.

The study finds that, on the basis of the academic research available, there was no conclusive evidence of a causal link between deviations from the proportionality principle and neither on the economic performance of listed companies nor their governance. However, there was some evidence that investors perceive these mechanisms negatively and think that more transparency would be helpful in making investment decisions.

The conference used the European Commission study as the basis for discussion and brought up contrasting views on the issues from European and national policy makers, academics, industry representatives and investors. The expected outcome was input to the European Commission's ongoing impact assessment and proposals and recommendations for further research. There were three sessions. The first session was on the study from the European Commission. The second session focused on industry and investor reactions and the third session had an academic perspective.

Speakers:

Marco Becht, ECGI
Morten Bennedsen, CBS and ECGI
Mike Burkart, Stockholm School of Economics and ECGI
Jean-Nicolas Caprasse, ISS
Christophe Clerc, Shearman and Sterling
Pierre Delsaux, European Commission
Michael Dithmer, Danish Ministry of Economics and Business
Daniel Ferreira, London School of Economics and ECGI
Julian Franks, London Business School and ECGI
Joe McCahery, University of Amsterdam
Colin Melvin, Hermes Equity Ownership Services Ltd
Peter Montagnon, ABI and ECGF
Lars Rebien Sørensen, Novo Nordisk A/S
Jaap Winter, DeBrauw Blackstone & Westbroek, ECGF and ECGI.

13th- 15th of September

“European Association of Law and Economics, 24th Annual Conference”

The Law and Economics movement is considered by many as the most important intellectual challenge within legal scholarship in recent decades. Economic concepts are applied to explain and clarify legal issues, not only with respect to antitrust and economic law, but also relating to a wide range of non-market activities, ranging from liability issues to family matters and crime. Law and Economics has influenced legislation and case law. Many academic journals publish articles in the field, and Law and Economics has become an integral part of the legal and economic education at many of the most prestigious universities.

The European Association of Law and Economics (EALE) is the institutional response to the increasing importance of the economic analysis of law in Europe. The EALE was founded in 1984. The purpose of the Association is to provide assistance for scholars embarking on this new field of research. The annual conference has become an important forum for the exchange of information and ideas. The EALE also arranges seminars jointly with other organizations, and locally in different countries.

Key note speakers:

Alon Harel, Law at Hebrew University

Hartmut Kliemt, Philosophy at Duisburg University
Henry Hansmann, Law at Yale University

21st of August

Seminar on “Share Classes: Function, Prevalence and Importance in Scandinavia and Europe”

There exists a wide range of ownership structures in the European membership countries that separate control and ownership. Among the widespread models are dual class shares, voting limitations, preference shares and pyramid ownership structures. In EU’s 2003 Action Plan it was suggested that it was desirable if such control mechanisms on the medium- or long run should be forbidden. In June 2007 the EU-Commission published a comprehensive study of the so-called “control enhancing mechanisms”. Center for Economic Business Research and Research Center on Biotech Business at Copenhagen Business School had finished their new studies on the consequences of abolishing the control enhancing mechanisms. In addition, Finn Valentin presented his study from the Department of Geography concerning the research importance in the Öresund Region based on a cluster analysis and bibliometric data. The purpose of this afternoon was to present the results of these studies and to start a dialogue between the different Danish stakeholders (companies, investors and the responsible authorities) concerning the European process of implementing the EU initiatives in this area.

Speakers:

Morten Bennedsen, CEBR og CCG.

Finn Valentin, RCBB.

Christian Wichmann Matthiesen, Department of Geography, University of Copenhagen

Kurt Anker Nielsen, Novo Nordisk Fonden

Claus Wiinblad, ATP

17th of April

Workshop on “Corporate Governance 2007, Where Are We?”

The workshop was a discussion of how far corporate governance has come in Denmark.

The Following issues were discussed

- What happens when a CEO dies?
- The performance of Private Equity in Denmark
- Corporate governance – regulation and deregulation of European business law
- A new perspective on legal families
- Privatization and worker ownership in Eastern Europe
- Internal auditing in Danish companies
- Corporate governance and executive compensation in Denmark
- Company management in the Nordic countries – a comparison

Speakers:

Steen Thomsen, CBS
Mette Neville, ASB
Morten Bennedsen, CBS
Frederik Vinten, CBS
Paul Krüger Andersen, ASB
Casper Rose, CBS
Hans Kurt Kvist, CBS
Niels Mygind, CBS
Kim Klarskov Jeppesen, CBS
Ken L. Bechmann, CBS

7th of February

Meeting of the Research group on “Small Worlds” (corporate governance networks) headed by Professor Bruce Kogut, Insead and University of Columbia.

Seminar on “Who Owns the World”

The seminar was a discussion of the paper “The Emergent Properties of a New Financial Market: American Venture Capital Syndication from 1960 to 2005”, by Professor Bruce Kogut.

17th of January

Seminar on "State Ownership and Privatization"

Government ownership has received relatively little attention in discussions on corporate governance outside emerging and developing markets. And yet there is substantial government ownership even in the Nordic countries and the transition from government to private ownership may be one of the most significant changes in corporate governance. To help stimulate the discussion on these issues we invited different scholars for an informal seminar. Are state-owned enterprises inherently less efficient than private firms? How does government ownership influence investment decisions? What happens when you privatize? Is the recent dynamism of Icelandic firms partly attributable to successful privatization? These were some of the questions, which we addressed.

Speakers:

Gabriel Benito
Bersant Hobdari
Þröstur Olaf Sigurjónsson

Publications 2007

Journal Articles

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- Lando, H. (2007), "On the optimal negligence standard in tort law when one party is a long-run and other a short-run player", *Research in law and economics*, vol. 22, pp. 207-216
- Rohde, C. (2007), "Activity based costing revisited by managerial economics logic", *Corporate Ownership & Control*, vol. 4, nr. 4, pp. 300-309
- Rom, A. & Rohde, C. (2007), "Management accounting and integrated information systems: A literature review", *International journal of accounting information systems*. vol. 8, nr. 1, pp. 40-68
- Rose, C. (2007), "Analyse af EU-Kommisionens undersøgelse af proportionalitet mellem ejerskab og kontrol i børsnoterede europæiske selskaber", *Revision og Regnskabsvæsen*, nr. 12
- Rose, C. (2007), "Can Institutional Investors Fix the Corporate Governance Problem? – Some Danish Evidence", *Journal of Management and Governance*, Vol. 11, nr. 4, pp. 405-428,
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- Mygind, N. (2007), "Transition from plan to market: An overview", Frederiksberg: Department of International Economics and Management, CBS, pp. 17 (Working Paper, pp. 63).
- Mygind, N. (2007), "Trends in Employee ownership in Eastern Europe", Frederiksberg: Department of International Economics and Management, CBS, pp. 32 (Working Paper, pp. 68).
- Plenborg, T. & Vriberg Petersen, C. (2007), "How do firms implement impairment tests of goodwill?", Frederiksberg: Department of Accounting and Auditing, CBS, pp. 34.
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- Sinani, E. & Hobdari, B. (2007), "Export market participation: The importance of sunk costs and spillovers", Frederiksberg: Department of International Economics and Management, CBS, pp. 42
- Vriberg Petersen, C. & Plenborg, T. (2007), "Design issues in bonus contracts", Frederiksberg: Department of Accounting and Auditing, CBS, pp.13
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Income & Expense Statement 2007

Income	DKK	Expenses	
Transferred from 2006	165.017	Travel expenses	147.367
CBS Grant	400.000	Administrative expenses	122.870
		Brochures	4.717
Grants from foundations		Newspapers and journals	2.718
Otto Mønsted	15.000	Equipment and furniture	2.018
		Conference participation	12.036
		Gratuities	33.227
Total	580.017	Total	324.953
		Surplus 2007	255.063

Note. This statement reports on the basic CBS grant does not include separately funded research projects, which account for the bulk of Center for Corporate Governance

Action Plan 2008

The focus on corporate governance is strong and increasing both in the business community, among policy makers and among academics. Coping with growth is likely to be the key challenge in 2008. Increasing demand should be met with a supply of qualified research. We need to deliver on many research projects begun since 2005 and at the same time to lay the foundations for future research by educating and recruiting talented researchers in a market where talent is increasingly scarce. At the same time fund raising needs to continue to finance the center's future growth.

More generally our objectives are:

- To provide a basic stimulating research environment within corporate governance that provides the right stimulus such that the participating researchers can continue publishing in the best economics, finance, and management journals.
- To continue and deepen our dialogue with the business community, including joint research projects, interviews, case studies and policy recommendations.
- To provide a basic stimulating research environment within corporate governance that provides the best possible environment for educating researchers at the Ph.D. and the assistant professor level.
- To further deepen our substantial international network such that Copenhagen will increasingly be recognized as one of the leading corporate governance centers in Europe and in the World.
- To disseminate research output to a wider community such as media, business partners and government agencies.

Research topics

In terms of research topics we aim to further strengthen our position as a world class research environment for a range of topics which are both at the international research frontier and are of vital importance for the Danish business community. These include both topical issues like executive compensation, corporate governance codes, private equity or corporate social responsibility and structural issues related to Scandinavian corporate governance. Among the focus areas in 2008 we will mention:

- What happens at shareholder meetings in Denmark? Do they contribute anything?
- Compliance with the Danish corporate governance code: To what extent do listed Danish comply or explain? Is there any discernible effect on valuation or performance?
- Private Equity Funds: do they create value? Should they be regulated?
- Family ownership: What do families influence firms?
- Corporate Governance in Nordic Firms: Could Nordic firms benefit from more international boards?



Risk and Governance: a large scale research project

CCG researchers are preparing a large scale integrated research initiative to advance the current understanding of risk and governance of business companies across a range of fields ranging from financial market risk, corporate governance, accounting and regulation of business companies. In addition to standard financial risk we propose to study operational risks related to control failures in business companies and government regulation.

While the fields of risk management, corporate governance, business law and accounting have grown to become distinct disciplines of specialized research, we propose that they are in fact strongly interconnected both in practice and in theory. The problems which regulators, shareholders, boards and business managers face in exercising control have important common characteristics in terms of asymmetric information, uncertainty (risk), incentive problems, strategic risk and incomplete contracts. The issues involved concern both financial decisions under uncertainty (e.g. portfolio theory), the resolution of incentive problems (e.g. standard principal agent problems) and complex interactions between them.

We propose that a re-examination of these problems through a concentrated common research effort is necessary and timely. First their theoretical and practical affinities imply a common theoretical structure which can and should inform applied research across disciplines. Secondly, an integrated approach is able to uncover more complex and realistic multilevel agency problems involving for example games between principals and interaction effects over decision chains. Third, a continued series of spectacular investment failures and business scandals imply that fundamental rethinking is necessary to understand and address these problems in practice. Although we can draw on strong research environments in risk management, corporate governance and related disciplines, this will clearly necessitate a major international research effort.

International Research contribution

CCG researchers have a comparative international advantage in characteristic Danish ownership structures. While the bulk of corporate governance research is concerned with agency problems in large listed companies, the vast majority of Danish – and European - companies are organized differently and face different governance problems: Family ownership, cooperatives and foundations are dominant ownership structures. CCG researchers are currently at the forefront of international research on these ownership structures and united in a common theoretical research perspective which applies and adapts economic theory to new ownership structures. Clearly family firms, cooperatives and foundation-owned companies cannot use standard business recipes from the Anglo-American literature, but need to design their own solutions. Moreover, we have a clear competitive advantage in access to a unique data source publicly available data of all private companies over several years – i.e. hundreds of thousands of private (non-listed) companies. We aim to further strengthen our contribution to these areas in 2008.

Externally Funded Research Projects 2008

Families and Firms: The impact of family risk and organization on the governance of closely held corporations

Project leader: Morten Bennedsen

‘Families and Firms’ investigates how risk related to family structures and family development affects firms. The overall idea is to evaluate the economic implications of the organization of families and the realization of uncertain events inside the families for the leadership and performance of closely held corporations. We use realization of risky events inside families to gain new insight into the economic value of four important governance institutions: the value of corporate leaders (i.e. chief executive officers, board chairmen, directors and managers); the value of family finance; the value of political networks; and, the value of professional boards. A part of this research project holds a subproject: *The value of Political Connections*. This subproject will be carried out as an integrated Ph.D. project.

Corporate Governance in Practice (2007-2010)

Project leader: Steen Thomsen

This research project will run for three years and will open “the black box” and uncover the strengths and weaknesses of the Danish corporate governance model. The purpose is to put focus on whether company practice is expedient, taking new recommendations and regulations into account. Internationalization will be taken into consideration, since the Danish corporate governance model is highly affected by international trends.

Following subjects are keys in the research:

- The role of the annual meeting
- Corporate information and shareholder value creation
- Board member recruitment
- Board assignment in Danish companies
- Behavior of venture capital funds
- Experience with the Danish corporate governance recommendations
- Corporate governance and the bottom line

Corporate Governance and the Global Competitiveness of Nordic Firms (to be completed in 2009)

Project leader: Aleksandra Gregoric

The aim of this project is to provide a deeper understanding on the functioning of the different corporate governance mechanism and their contribution to the competitive advantage of Nordic firms. In this regard, our main focus is the corporate board. We are in particular interested in the current level of board diversity in the Nordic firms in terms of the nationality, age and gender of the board members. We want to discover the main factors driving to larger internationalization or gender diversity of Nordic firms. Moreover, we are interested in how and to what extent this diversity as well as other board characteristics (i.e. the existence and functioning of committees, board independence, etc.) impacts the performance and competitiveness of Nordic firms. We aim to

address these questions both by performing comparative case studies of Nordic firms and by addressing the whole population of Nordic publicly traded firms (econometric analysis). We will use the results to draft recommendations of 'good corporate governance' for both companies and public policy. The key subjects we aim to address are the following:

The extent of the current internationalization of Nordic firms' activities and boards;

- Board diversity (gender, nationality, age) and its impact on firm value (competitiveness, innovations, globalization, etc.);
- Board independence;
- Board committees;
- Management diversity;
- Board diversity and its determinants;
- Board diversity and firm value;

Compliance with the Danish Corporate Governance code

Project leader: Therese Strand

This research project focuses on the national Danish corporate governance code and how companies relate to its content in practice. The code was first adopted in 2001 (revised in 2003 and 2005) and is based on the international common principle of "comply or explain". This principle grants companies the opportunity to abstain from compliance if they explain why. The purpose of the study is to investigate the use of the "comply and explain" principle in Denmark, and to conduct an evaluation of the effects of the code on Danish corporate governance. The study comprises three main issues;

- The degree to which Danish companies employ "comply" respectively "explain", and what parts of the code are explained rather than complied with
- Possible differences between the degree of compliance in Denmark compared to other countries (with special national features of corporate governance taken into account)
- How boards of directors, managers and investors view the Danish corporate governance code and its effects

Governance in Financial Mutuals (2007 - 2009)

Project leader: Søren Vincent Svendsen

This research project runs for about 2 years and will open "the black box" of governance issues in financial mutuals. The project aims at reviewing the international literature on various governance issues in financial mutuals. Specifically, four main topics are forming the project and cover the following subjects:

- **Ownership and capital structure of financial mutuals**, for example literature on strengths and weaknesses of financial mutuals, comparative studies between financial institutions with different governance structures, capital structure and constraints in financial mutuals and, goals, objectives as well as common definitions of financial mutuals.



- **Board of directors and electives**, for example codes of best practice and recommendations for good governance in financial mutuals, composition of board of directors, relationships between the board and the management, etc.
- **External investors and de-mutualisation**, for example experiences and drivers behind de-mutualisation processes in financial mutuals, possibilities of sharing ownership with external investors, mutual holding company structures of financial mutuals as well as literature on other means for attracting risk bearing capital in financial mutuals.
- **Communication and transparency**, for examples such subjects as the public opinion on financial mutuals, demands and requirements for publicity in these organisations and companies, transparency rules and practices and, means of communication with stakeholders in general.



Seminars and workshops 2008

The 16th of January

Seminar on “The Role of Prestige and Networks in Outside Director Appointments”

The seminar will be a discussion of the paper “The role of prestige and networks in outside director appointments” by Professor Tom Kirchmaier from LSE.

Speaker:

Tom Kirchmaier, LSE

The 27th of February

Seminar on “Executive Compensation”

Are managers paid too much? Are they paid in the wrong way? How about Denmark? What is the role of the board in setting executive pay? We discuss these topical issues at a special seminar.

Speakers:

Steen Thomsen, CBS

Martin Conyon, ESSEC

Ken Bechmann, CBS

Mads Øvlisen, Novo Nordisk

The 12th of March

Seminar on “The Power of Large Shareholders - Private Benefits in Corporate Control Transactions”

In his paper “Private Benefits in Corporate Control Transactions” Poulsen suggests an answer to the question: Are blocks of shares traded because the buyer is a more efficient monitor with high security benefits, or because the buyer has high private benefits from the control rights that come with the shares?

Speaker:

Thomas Poulsen, Aarhus School of Business and Centre for Economics and Business Research.