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GLOBALISATION OF BUSINESS IN A SMALL COUNTRY – DOES OWNERSHIP MATTER?

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TIIVISTELMÄ: Globalisaation seurauksena erityisesti pienten maiden yritysten omistajapolitiikka ja -rakenne sekä johtamis- ja valvontajärjestelmät (corporate governance) ovat muuttuneet. Tässä tutkimuksessa tarkastellaan Suomessa toimivien yritysten omistajien kansallisuuden vaikutusta yritysten tavoitteisiin ja kannattavuuteen.

Tutkimuksen empiiristen tulosten mukaan omistaja-arvon maksimointi on noussut yritysten keskeiseksi tavoitteeksi 1990-luvulla. Samaan aikaan yritysten ulkomaalaisomistus on kasvanut merkittävästi. Tutkimustulosten mukaan ulkomaalaisomisteisten yritysten kannattavuus on selvästi ylittänyt suomalaisomisteisten yritysten kannattavuuden. Sama tulos pätee sekä suorien sijoitusten kautta lisääntyneeseen ulkomaalaisomistukseen että portfoliosijoitusten kautta lisääntyneeseen ulkomaalaisomistukseen,

AVAINSANAT: Globalisaatio, corporate governance, johtamis- ja valvontajärjestelmät, EVA, omistusrakenne, ulkomainen omistus, suorat sijoitukset, kansainvälistyminen, kannattavuus.

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ABSTRACT: As a consequence of globalisation, ownership policies and structures and corporate governance systems have changed in small countries in particular. In this paper, we explicitly investigate the influence of ownership nationality on company goals and financial performance in Finland.

Our empirical analysis shows that the maximisation of shareholder value has been adopted as a major goal during the 1990s. That change has coincided with increasing foreign ownership. Our results suggest that foreign companies have performed better than domestically-owned ones. This applies both to firms that are subsidiaries of foreign companies and to firms with a high share of foreign portfolio investment.

KEY WORDS: globalisation, corporate governance, EVA, nationality of ownership, foreign ownership, FDI, financial performance.

GLOBALISATION OF BUSINESS IN A SMALL COUNTRY – DOES OWNERSHIP MATTER?

1 INTRODUCTION – POSING THE QUESTIONS

This paper looks at the internationalisation of business, ownership nationality and changes in corporate governance in the face of globalisation. By globalisation we refer to the international integration of markets for goods, technology, labour and capital. None of these components of globalisation is really new, but the intensity of the internationalisation process is different from the past. Hence, the current globalisation wave should be distinguished from traditional internationalisation. What is going on in the form of rapidly increasing capital flows seems to have much more far-reaching consequences for national institutions and capital market models than previous globalisation phases and internationalisation of business.

Globalisation is, to a large extent, an economic phenomenon driven by multinational enterprises. The central and increasing role of corporations in allocating resources in the economy has stimulated a debate among economists and politicians about how to govern corporations to enhance the efficiency of business enterprises and the welfare of national economies. The subject of corporate governance has proved to be of huge practical importance for economic performance.

The issue has become topical, especially in Europe, as a consequence of major cross-border mergers and acquisitions (often of firms with different governance structures), and the growing presence of large American institutional investors. Obviously, the globalisation of financial markets and ownership has triggered major changes in corporate governance towards the US model in most European countries (see, e.g., Berglöf, 1997).

In the Nordic countries, notably in Sweden and Finland, there has been a fast and dramatic change in ownership policies and structures. A large number of firms have been merged with foreign firms or have been acquired by foreign owners. This has aroused questions on how the Nordic capital market model has changed and how the increasing foreign ownership has affected the behaviour and performance of firms.

In this paper, we consider explicitly the influence of ownership nationality on companies' goals and financial performance in Finland. Our databases enable us to examine how goals and financial performance have changed over the past 15 years.

In the next section we compare briefly the different systems of corporate governance and review evidence on their performance. In section three and four we take a small country perspective and look at the internationalisation of business and ownership in Finland, as well as basic features of corporate governance. We ask how ownership structure and company goals have changed as a consequence of globalisation. We ask whether internationalisation of ownership matters: Do foreign-owned companies perform better than Finnish-owned ones? Are there differences in goals and governance? Are the announced goals and actual financial performance in line with each other?

Section five concludes and discusses the future perspectives of corporate governance in small countries.

2 OWNERSHIP NATIONALITY – WHY DOES IT MATTER?

In this section, we ask why the nationality of owners might matter. We start by looking at differences in the structure of corporate governance systems. Next, we consider the role of competition in corporate performance and implications of the matching theory.

2.1 Different structures of corporate governance

In the market economies there are essentially two types of corporate governance or capital market models: the *outsider system* (or the US/UK system) and the *insider system* (or the German/Continental European system).[1] The former is characterised by a large number of listed firms, dispersed ownership, strong minority protection, and maximisation of *shareholder value*. In this system there is also an efficient market for corporate control, and management failure is corrected by the take-over mechanism. The latter system – also known as a *stakeholder model* – is characterised by concentrated ownership, a small number of listed companies, domination of banks in the financial market, and weak minority protection. The management is controlled and disciplined by a small group of the largest shareholders.[2]

The differences in the national systems are displayed in Table 1, which is based on a survey made among business executives. The message is clear. In the US and UK the shareholder perspective strongly dominates, whilst in Germany and Japan the stakeholder view seems to be prevalent.

Table 1. National differences in corporate governance

	Whose company is it?		Job security or dividends?	
	All interest groups', %	Shareholders', %	Job security, %	Dividends, %
Japan	97.1	2.9	97.1	2.9
USA	24.4	75.6	10.3	89.7
UK	29.5	70.5	10.7	89.3
German	82.7	17.3	59.1	40.9
France	78	22	50.4	49.6

Source: Institute of Fiscal and Monetary Policy (1996)

The Nordic governance model has traditionally been akin to that in Germany/Continental Europe (and to some extent Japan). However, as a consequence of rapid globalisation of the capital market and changes in corporate ownership, firms and governments are facing the "governance dilemma": Whether to promote adoption of the Anglo-Saxon model or to keep some of the features of the Continental European model? (see Holmström and Kaplan, 2001).

The Anglo-Saxon corporate governance system emphasises return on capital more than the Nordic and Continental European systems do. This difference in goal setting might lead to different investment levels.

2.2 Degree of competition

The degree of competition and exposure to international markets varies across countries. Differences in competitive environment are highlighted when competition is liberalised in previously protected industries. Typically, restrictions have originally been made in order to protect domestic companies from foreign competition.

Porter (1990) points to the importance of domestic competition in creating competitive edge in the international market. Protected and non-competitive home markets lead to inefficiencies and uniformity of firm strategies. Management literature provides a lot of evidence that a competitive environment leads to more efficient decision making structures and increases incentives to monitor costs in order to maintain or improve corporate performance (cf. Caves, 1980).

In economics literature there is fairly little empirical evidence on the role of competition in firm performance, but it points clearly in the same direction. Deregulation and a higher level of competition is associated with productivity gains (for a review, see Allen and Gale, 2000).

Obviously, a dissimilar operating environment is a factor that may cause differences in performance between companies with different home countries and ownership.

2.3 Matching between units

Lichtenberg (1992) has proposed that ownership change is caused by lapses of efficiency. These differences are due to the incompatibility (or matching) between plant and parent company. The matching theory is based on three primary assumptions: (1) Some owners have a comparative advantage with respect to some plants. (2) The quality of the match is a decisive factor in the decision to maintain ownership of the plant. Thus, the theory does not assume that there are good and bad owners, but that there are good and bad matches. (3) The quality of the match can be measured by productivity performance.

Many acquisitions are preceded by a deterioration of the target company's economic performance. This deterioration may act as a signal to an owner that he is operating less efficiently than an alternative parent could.

The matching theory of plant turnover has two major implications: (1) A poor match, which is indicated by a low level of productivity, may lead to a change of ownership. (2) A change of ownership will lead to an increase in plant productivity. The quality of each match is assumed to be randomly distributed. Thus, given that the quality of the first match was low, the expected value of a new match (from an identical distribution) is higher.

The freeing of capital movements and liberalisation of financial markets have increased the potential for better international matches. Hence, we see a growing number of cross-border mergers and acquisitions, the primary motive of which is to make use of difference in firm performance.

2.4 Previous studies on ownership structure and financial performance

Thomsen and Pedersen (2000) have studied the impact of ownership structure on financial performance. The results indicate that market-to-book value is higher in companies whose largest owner is a financial institution than in companies whose largest owner is a family, another company or a government. However, nationality is also found to affect the relationship between market-to-book value and ownership structure. Statistics from Sweden (Statistics Sweden 1996, Strandell 1997) and Japan (METI 2001) suggest that in terms of return on equity, foreign-owned companies outperform domestic companies. The results by Griffith (1999) concerning productivity differences between domestic and foreign-owned companies in the motor vehicle and parts industry supports the view that foreign-owned firms have higher financial performance. Chibber and Majumdar (1999) focus on the influence of foreign ownership on the financial performance of firms operating in India. According to them, foreign-owned companies, i.e., subsidiaries of foreign firms, outperformed domestic companies.

Differences in corporate governance, degree of competition, and lapses in the matching of resources suggest that the nationality of ownership (foreign versus domestic) might cause differences in financial performance, especially in return on capital. Previous empirical evidence also supports this view. Different governance systems imply different emphasis in the goals of firms, and how they are signalled to the stakeholders.

For empirical testing we forward the following hypotheses:

There are differences between foreign and domestic-owned firms

- *In goal setting*
- *Investment rate, and*
- *Financial performance*

3 DATA

This section presents a brief overview of our data. We use basically two data sets on Finnish companies. The *first data set* ("top 100") is the large firm database, which includes the 100 largest corporations (ranked according to sales). The period covered is 1986 - 98. However, due to mergers and restructuring we have comparable data (balanced panel data) over the whole period 1986-1998 on only 50 corporations. This data set includes information on financial performance, and basic features of corporate governance such as ownership structure, organisation, and what kinds of goals (shareholder value, growth, etc) the companies have pursued.

The *second data set* ("top 500") consists of financial statement data on the 500 largest companies in Finland for the period 1986 - 98. The data allows us to make financial performance analyses, but does not include information concerning goal setting, nor other direct measurements of governance structures. As far as the ownership structure is concerned, only the distinction between foreign controlled (majority owned company) and domestically owned firms can be made. Approximately one third of these companies were foreign-owned, i.e., subsidiaries of foreign firms in 1998. There is no data on the amount of the foreign portfolio investment in this data set.

4 GOALS AND FINANCIAL PERFORMANCE – IMPACTS OF OWNERSHIP NATIONALITY

This section overviews the major changes in the goals of the companies since the mid-1980s. We also raise the question how ownership (foreign vs. domestic) might have affected the goals and financial performance of companies.[3]

4.1 Broad overview of changes in the 1990s[4]

Until recently, the Finnish corporate governance system has been more akin to the German/Japanese system than the Anglo-Saxon system. Traditionally, the ownership basis of major Finnish companies has not been particularly broad. Control has typically been wielded by founding families, banks, other companies or the state. The number of listed companies has been rather small, and banks have served as a major source of finance for Finnish companies. [5]

In the 1990s, companies, their governance and operations changed remarkably. Cross ownership diminished when banks and large industrial companies sold their shares of other companies. Furthermore, the privatisation of state-owned companies has proceeded fast. In many cases, the buyer has been a foreign company or an investor.

In addition to ownership changes, many changes in governance structures have taken place too. First, the supervisory board, which has been quite common in large Finnish companies, has been discontinued in many cases. Second, the board of directors has been separated from operating management. Third, a number of diversified companies have focused on their core competencies and businesses by selling off less strategic businesses. Fourth, companies have changed their targets. Shareholder value has become one of the key targets in most large companies.

4.2 Foreign vs. domestic ownership: Does it matter?

Next, we ask if there is any difference in the financial performance of Finnish and foreign-owned companies. First, we use the top 100 database. The data is divided into two groups according to the percentage of foreign ownership.

Among the performance indicators we include the Economic Value Added (EVA) measure which represents the shareholder perspective. Unlike traditional measures of corporate profitability, EVA also takes into account the opportunity cost of equity capital (see Appendix).

Table 3. Performance by ownership using top 100 data in 1997 and 1998 (averages)*

	Foreign ownership < 20 %, (n=121)	Foreign ownership >= 20 % (n=78)	t-statistics	p-value
Return on investment, %	14	17	-1.6869	0.09
Capital turnover rate,%[6]	3	3	0.057	0.955
Equity share, %	47	42	2.389	0.017
Investments/Net sales, %	13	8	2.132	0.034
Operating income/Net sales, %	7	7	0.501	0.616
EVA, FIM mill.	79	447 (221 without Nokia)	-2.092	0.04
EVA/Capital invested, %	6	9	-1.647	0.102

The number of observations is 199, since the sample is based on the top 100 rankings of 1997, while the merger of IVO and Neste in 1998 reduced the number to 99. T-statistic is a test for a population mean (t-test, variance unknown), i.e. we test H0: Mean (Domestic-owned) = Mean (Foreign-owned)

Many key indicators of companies' financial performance differ significantly between Finnish and foreign-owned companies. The biggest difference relates to EVA, which is much higher in foreign-owned firms. Even if we exclude the largest Finnish multinational company Nokia from the sample, the difference still remains double. Companies with at least 20% foreign ownership yield more value added to their owners. There is also a clear difference between the equity ratios of foreign and domestic-owned companies. Companies with less than 20% foreign ownership have a better equity ratio than domestic-owned companies. However, due to the small sample size, these differences should be considered as tentative.

In order to solve the small sample problem, we have also used the larger database (top 500). Table 4 is based on a larger database of 500 companies' financial statements. In this data set we can, however, measure the foreign ownership only by making a distinction between majority foreign-owned (subsidiaries of foreign companies) and domestic companies. Hence, we have looked at foreign direct investment, and do not have any information on the possible foreign portfolio investment in these companies. The data covers the years 1986-1998 and we have focused on EVA and the conventional rate of return on investment.

Table. 4. Performance by ownership (averages, N=5121)

	Finnish-owned			Foreign subsidiaries		
Year	EVA, FIM mill.	EVA-%[7]	Return on investment, %	EVA, FIM mill.	EVA-%	Return on investment, %
1986	-27	-1	8	2	1	11
1987	10	2	10	16	7	15
1988	24	3	11	18	8	17
1989	11	1	10	12	6	16
1990	-24	-1	8	-1	0	11
1991	-71	-4	6	-3	-4	8
1992	-70	-3	8	-2	-3	9
1993	-32	0	9	1	2	12
1994	13	3	12	11	10	20
1995	36	4	16	23	12	27
1996	14	4	17	19	9	24
1997	37	5	18	24	11	26
1998	54	5	17	23	10	24
Total average	-4	1	12	12	6	18

The message is clear. Foreign-owned companies have been performing much better than domestic ones. Foreign companies created slightly negative value added during the recession (1991-1993), but at the same time, the average EVA of Finnish-owned companies was strongly negative. In order to eliminate the effect of company size, we compare how the EVA % has differed between the groups.

EVA % describes the efficiency of capital. EVA in relation to capital invested has averaged 1 per cent in Finnish companies, while the same figure in foreign-owned companies has been 6 per cent. The rate of return on capital invested in foreign companies is also much higher than in Finnish-owned companies. The differences are significant, taking into account that the companies have basically been operating in the same environment.

Table. 5. Has capital been invested effectively? (N=5121)

	Finnish-owned			Foreign-owned		
Year	Capital turnover rate	Investment/ Net sales, %	Number of com-panies	Capital turnover rate	Investment/ Net sales, %	Number of com-panies
1986	2.5	11	190	2.8	7	39
1987	2.5	10	249	2.8	5	50
1988	2.4	13	292	3.1	5	58
1989	2.5	11	318	3.2	6	74
1990	2.6	12	360	4.3	6	88
1991	2.8	8	399	3.6	6	91
1992	3.5	10	339	3.1	5	77
1993	3.6	8	334	4.9	4	88
1994	4.1	7	299	7.9	4	93
1995	3.5	8	289	6.7	3	110
1996	5.5	8	297	7.2	4	115
1997	3.8	9	286	6.3	4	117
1998	5.2	10	333	7.1	5	136
Total average	3.4	10	3985	5.3	5	1136

The difference in yield on capital is derived from the capital turnover rate as displayed by table 5. Finnish-owned companies need far more capital to generate the same sales or value added than foreign-owned companies. Table 6 considers statistical tests for performance differences.

Table 6. Statistical tests for a population mean using top 500 data (N=5121)

Variable	EVA	Return on investment	Investment/ Net sales	Capital turnover rate
t-statistic	-4.2581	-10.376	14.35	-5.07453
p-value	< 0.01	< 0.01	< 0.01	< 0.01

Note: t-test, variance unknown, H0: Mean (Domestic-owned) = Mean (Foreign subsidiary)

As can be seen from Table 6, the hypothesis that there are no performance differences between domestic and foreign-owned companies, is rejected. Furthermore, the investment ratio of foreign-owned companies is lower than domestic-owned companies. These results support our hypotheses that investment ratio and financial performance differ in domestic and foreign-owned firms. The findings in Table 6 are consistent with the results using different criterion for foreign ownership (Table 3). The only major difference concerns the differences in capital turnover rate. While our small sample (top 100) did not show differences in capital turnover rate, statistically significant differences appeared when we used a larger database (top 500).

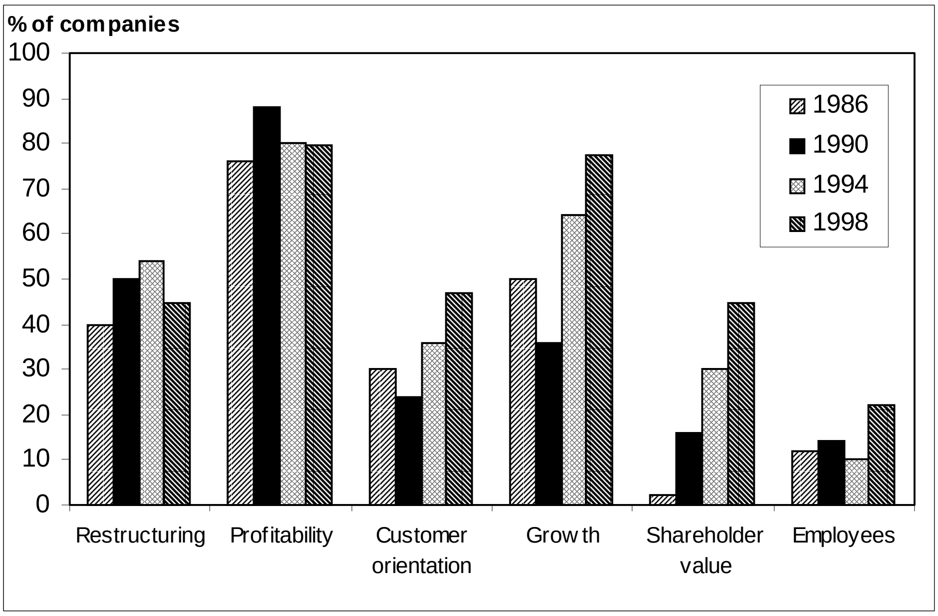
Finnish companies are, on average, much more capital-intensive than foreign-owned companies are. This finding does not change significantly even if the capital-intensive forest industry is eliminated from the data. In a previous study on the financial performance of Finnish companies (Ali-Yrkkö and Ylä-Anttila 1997), the industry differences between domestic and foreign companies were carefully controlled. The result was that the industry differences did not explain the performance differences. Foreign companies clearly outperformed domestic companies.

Why the differences? Are Finns poor managers? The argument on poor management practices in domestic-owned firms probably does not hold water. This is reinforced by case studies of foreign takeovers showing that the old management has often kept its position after the takeover but the company's profit has still improved. Foreigners have obviously been more demanding owners than Finns. More is squeezed out of the company.

4.3 Goals and ownership

The annual reports of Finnish companies usually include a section describing company goals and targets. As can be seen from Figure 3, shareholder value became an increasingly common company goal in the 1990s. At the same time, foreign influence through ownership was rising.

Figure 3. Goals of the largest Finnish companies (percentage of companies which mentioned the goal)



Based on the “top 100” data set. Comparable data (balanced panel data) for the whole period 1986-1998 is, however, available only for 50 companies.

All companies state several goals. Another goal, not mentioned in the figure, is improving the debt/equity ratio. Since the sample is small, the conclusions based on it should be regarded as tentative.

Profitability and its improvement were the main goals throughout the period. Companies announced either that they would maintain profit performance at the same level as before, or that they would try to improve it.

During the recession in the 1990s, the desire of companies to grow diminished. This finding is not very surprising, because growth was not a very realistic goal in the depth of the recession. In fact, most companies tried to keep their sales at the same level as before. It is interesting that the goal of customer orientation declined during the economic slowdown. However, it is difficult to make any firm conclusions about the reasons for this. It simply seems that many companies were forced to concentrate on improving their debt/equity ratios at the expense of other goals.

Stressing the owners’ role has increased rapidly during recent years. Since 1990, more and more companies have announced that they seek value added for shareholders. By the end of the 1990s, almost half of the large companies stated shareholder value as one of their key goals. Shareholder value is, of course, closely related to other targets, like profitability and growth. However, stating it explicitly as one of the key goals, includes a specific signal to the owners and is, at least, an indication of the governance structure.

Table 7 shows how goals differ between Finnish and foreign-owned companies.

Table 7. Comparison of the goals of foreign and Finnish-owned companies (N=199)

	Foreign ownership<20%	Foreign ownership>20%	t-statistic	p-value
Restructuring	38	38	-0.353	0.724
Profitability	76	67	0.406	0.685
Customer orientation	49	63	-2.721	0.004
Growth	63	73	-2.313	0.01
Shareholder Value	28	52	-3.99	0.000
Employees	38	29	-1.474	0.142

The data is based on the "top 100" data set. The number of observations is 199, since the sample is based on the top 100 rankings of 1997, while the merger of IVO and Neste in 1998 reduced the number to 99.

The basic conclusion is that there seems to be some differences in goals between domestic and foreign-owned companies. The results in Table 7 suggest that foreign-owned companies are more customer and shareholder-value-oriented than domestic companies. Moreover, there seems to be a difference between the companies where foreign ownership is high and domestic companies, as far as the growth objective is concerned. To summarise, these results support our hypothesis that the goals of foreign and domestic-owned companies are not similar.

4.4 Performance and goals

As shareholder value has become an important goal during recent years, an interesting question is whether those who put emphasis on shareholder value have really created more value added for their owners than other companies have.

The data has been divided into two groups - aspirants to shareholder value and others.

Table 8. Comparing the performance of the "shareholder value companies" with others, 1997 and 1998 (averages)*

	Others (N=127)	Aspirants to shareholder value (N=72)	t-statistic	p-value
EVA, FIM mill.	87.7	468.2 (217 without Nokia)	-1.977	0.05
EVA/Capital invested, %	7.0	8.1	-0.633	0.528
Return on investment, %	15.0	16.4	-0.763	0.447
Investment/Net sales, %	9.6	13.9	-1.454	0.149
Equity ratio, %	45.0	45.8	-0.337	0.737

* "Top 100" data set (see section 3.1). The number of observations is 199, since the sample is based on the top 100 rankings of 1997, while the merger of IVO and Neste in 1998 reduced the number to 99. Statistical tests for a population mean (t-test, variance unknown) Ho: Mean (Finnish-owned)= Mean (Foreign-owned)

Unexpectedly, the performance of the "shareholder value companies", (i.e., companies that state shareholder value as one of their key goals) does not deviate significantly from the others (Table 8). The only difference is in EVA. This difference is mainly explained by the firm size.

Announcing shareholder value as a key goal is not necessary associated with higher than average performance. One obvious explanation is that some of the goals are correlated with each other. However, we are looking at only two years. Hence, the results are indicative. Association between announced goals and actual financial performance remains inconclusive.

5 SUMMARY AND CONCLUSIONS

Since the 1980s a more open world economy and continuous integration of markets - not only for goods, services and financial capital, but also for technology and corporate control - have changed national systems of corporate governance.

As a consequence of globalisation, capital flows – both FDI and portfolio investment – have increased significantly. The role of foreign capital and foreign ownership has increased rapidly in many countries. In this study, we have focused on financial performance and differences in governance structures between domestic and foreign-owned companies, using data on Finnish companies.

Our data shows that maximising shareholder value has been adopted as a major goal in most large Finnish companies irrespective of their line of business. High-tech firms and basic industry firms alike started to announce shareholder value as a basic principle of corporate governance in the early 1990s. That coincided with increasing foreign ownership in the Finnish business sector. Our empirical results suggest that ownership matters in goal setting. There are significant differences between foreign-owned and domestic-owned firms in terms of their announced objectives.

Furthermore, ownership matters when we look at the financial performance of companies with different ownership structures. Our comparisons suggest that foreign-owned companies have not invested as much as domestic companies. This partly explains why foreign-owned companies produce a higher rate of return on capital than domestically-owned companies. This applies not only to companies that are majority-owned and controlled by foreigners (subsidiaries of foreign firms) but also to companies with lower foreign ownership ratios.

Our analysis also shows that foreign companies perform better than Finnish-owned companies when "Economic Value Added" (EVA) is used as a performance indicator. This applies both to firms that are majority-owned by foreigners (through FDI) and to firms with a high share of foreign portfolio investment. If high values of EVA reflect not so much the announced goals, but rather the real objectives and corporate governance practices of firms, it can be concluded that the shareholder value principle has been adopted more among foreign-owned than domestically-owned companies.

Our results are in accordance with evidence from three other countries (two small and one large) - Sweden, Denmark and India. They also accord with the specific ownership advantage argument as well as with matching theory, which argues simply that ownership changes occur since some owners have - due to their previous experience - comparative advantages in owning certain types of firms.

It is concluded that an increase in foreign ownership has improved the efficiency of capital. The results also imply that in less integrated and partly protected markets it was possible to pursue other goals at the expense of the rate of return on capital. The increase in foreign ownership has changed this rapidly. It is likely that, in the future, the role of ownership structure (domestic vs. foreign) in determining rates of return will diminish. Owners will pursue high yields irrespective of their nationality.

6 APPENDIX

Appendix 1. Calculating EVA

EVA = Economic Value Added. Unlike traditional measures of corporate profitability – such as net operating profit after tax, and net income – EVA looks at the firm’s “residual profitability,” net of both the cost of debt capital and the cost of equity capital (Grant, 1997).

EVA=Net result-(Riskless rate of interest + Beta x Risk premium) x Equity share

where

Riskless rate of interest = The treasury bond (5 years) yield in Finland (Source: Bank of Finland)

Beta: Beta by industries, Source: Finnish Economic Weekly (Talouselämä) 20/1997

Risk premium: 4.5 %

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[1] See, e.g. Schleifer and Vishny (1997). Actually, four types of corporate governance system are often presented in the literature: the Anglo-Saxon system, the German system, the Latin system, and the Japanese system.

[2] An often cited statement of the CEO of Volkswagen AG some 30 years ago is still thought to be an illustration of the German (Continental Europe) system: ***"Why should I care about the shareholders, whom I see once a year at the general meeting. It is much more important that I care about the employees; I see them every day."***

[3] The causality might, of course, run also to the other direction, i.e., companies with high financial performance are attractive investment targets for foreign companies and investors. Indeed, a previous study with Finnish data shows that foreign companies tend to acquire firms with higher than average rate of return. However, the rate of return difference between domestic-owned and foreign-owned companies seems to grow after the acquisition. See, Ali-Yrkkö and Ylä-Anttila (1997) and Ali-Yrkkö et al. (1997).

[4] See Ali-Yrkkö and Ylä-Anttila (1999) and Ylä-Anttila (2000)

[5] Basic characteristics of the traditional system are described, e.g., in Kasanen et al. (1996). Changes in institutional and legal settings in the 1990s are described by Hyytinen et al. (2001).

[6] Net Sales/Capital invested*100

[7] EVA %=EVA/Capital invested*100, see also Appendix

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