

## **Commentary: An unsustainable ownership structure for Sweden**

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Sweden needs a shared dialogue on ownership around the citizens' failing trust for the business sector. Such a dialogue deals with the short-term perspective in the business sector as well as in politics. It deals with today's causally handling of alternative forms of ownership such as cooperatives and non-profit businesses. It aims to move the company away from profit maximization to long-term value creation.

This is addressed in the report *A sustainable ownership structure* which has been initiated by the think tank Global Utmaning. It is a study of 140 pages with over 50 policy recommendations that can form a base for a broad discussion around how Sweden is owned. The publication goes through how ownership in Sweden is organised, sector by sector: the stock market, the venture capital industry, the civil society, cooperatives, the public sector, as well as family businesses. It opens up for seeing the role of the business sector in the society more broadly, and how quality can be increased in the welfare system.

Sweden differs from many other countries. Swedes still work in either the private business sector or in the public sector. Nowhere in the Western world is the value based, the civil society and cooperative sectors smaller. Nowhere else is the business sector so open for short-term and volatile capital.

This development is unsustainable in the long run. Good growth rates of 4 percentage of BNP do not do more than conceal the fact that Sweden has underlying structural problems. Otherwise it is impossible to explain 100 000 lost industry jobs since 2008, that a profitable local food factory in Bjuv is being shut down, that research leading life science is shrinking in Sweden, that start-ups in the IT-sector are moving abroad, that this year's wage negotiations ended in failure, that headquarters are moving abroad, or that there is a discussion about the municipalities' role in the welfare system that centres around who should be providing health care, education and elderly care, rather than around what quality that is offered to the citizens.

A picture is being painted of Sweden where domestic capital does not invest, as a consequence of complicated and impeding taxes and out-dated investment rules. In many places, as the stock market and in the venture capital sector, it has been replaced by foreign capital. That has still not been enough, Swedish small and medium sized companies are not growing and investments are not carried out. In other sectors, such as the non-profit sector, capital is still entirely missing.

What we see is a mismanagement of Swedish long-term patient capital. The Swedish tax system still handles labour and capital as if the country's citizens are in a conflict regarding how resources should be distributed. Actually, we have a knowledge economy where labour and capital increasingly converge and where focus should be shifted to how common resources should be transformed. With time it has impoverished our ability for long-term value creation.

With the discussion paper on *A sustainable ownership structure*, Global Utmaning wants to point to the opportunity of moving Sweden in the direction of what we call a

value based market economy, which rest on three schools of thought, all which have Swedish roots:

- (1) Focus on annual value rather than shareholder value. The Swedish economist Eric Rehnman developed the internationally popular stakeholder model in the 1960s. In the original, the corporate executive was to distribute the company's value fairly. Today the stakeholder model has an excessive focus on shareholder value. The model could be developed to a business value model, which includes employees, clients and community resources as an integrated part of the company's value creation. In the long run this opens up for Swedish actors to dare to discuss the concept of profit in the Swedish Companies Act, something that is discussed internationally. For example it could be written into the law that profit does not have to mean profit maximization, which sometimes is too short sighted, rather it means long term profit, and thus it would open up for more investments which as well has public benefits.
- (2) A diversity of models of ownership. It is based on the social scientist Hans L Zetterberg's description of four sectors of society from the 1980s. An equal approach to the public sector, the private sector, the civil society and the individual sphere, is neither a right wing nor left wing project. Cooperatives and mutual structures for example include human values in its objective function, where the profit becomes the means, but not the goal per se. That reduces the risk for only short-term profit maximization or cost minimization to be governing. Sweden lacks mutual structures in other forms than in insurance companies. In England there are mutually managed schools and hospitals. Sweden has too few staff cooperatives. It is a fast growing form of organisation internationally and there are large corporations, which are managed as staff cooperatives.
- (3) The special value of domestic formation of capital. In the wake of the financial crisis in 2008 more and more experts and scientists recognizes that capital does not criss-cross across the entire world as if it was in line with classic rational economic models. Rather, there is capital, which because of proximity both has an information advantage, and a will to invest long term in a neighbouring area. Politicians and the Ministry of finance with its fiscal tax policies are not paying attention to this. It is however, highlighted by the former CEO of the Swedish Dept Office, Thomas Franzén, researchers at the Research Institute of Industrial Economics and the Swedish Entrepreneurship Forum, and by the study's author Sophie Nachemson-Ekwall, who has looked closely at both hostile bids and institutional investments. Ultimately, it has significance for the level of investment, Sweden's position as a science and knowledge nation and thus the number of employment opportunities.

To create change a new law is needed. Swedish institutional investors, including the AP funds, have to be able to place long term capital in small and medium sized companies. Swedish business owners need to be encouraged to invest in Swedish business. We need employee stock options for entrepreneurs, a new Companies Act, loans and venture capital for mutual forms of organisation, tax exemptions for

donations to non-profit organisations or foundations, venture capital deduction for innovation and social investments or employee ownership schemes through the, in the U.S. so popular, ESOP programs.

In the work with the study we have talked with over 50 representatives on executive positions in the trade union movement, employers, foreign owners, venture capitalists, idea and value based organisations, cooperatives, researchers from different social science disciplines as well as politicians. We have found a clear interest for the importance of ownership. There is an understanding that ownership needs to be addressed for Sweden to be able to, on a solid ground, deal with the challenges of globalisation that follow free movement of capital, climate change, urbanisation, indebtedness, digitalisation and migration. Therefore we believe that the Swedish model's building block of understanding, can reach up to a new level.

A dialogue would also get extra leverage if the government and the parliament appointed an Ownership Commission, which would create a framework for a new sustainable ownership structure for Sweden.

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